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Growth, Poverty and the Terms of Development Partnership

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Chapter 1:

How Sustainable is LDCs' Growth?

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Chapter 1

How Sustainable is LDCs' Growth?

A. Introduction

In 2005 and 2006, the least developed countries (LDCs) as a group achieved their highest rates of gross domestic product (GDP) growth in 30 years. This chapter examines the factors behind this growth performance and assesses its sustainability.

In 2005 and 2006, the least developed countries as a group achieved their highest rates of GDP growth in 30 years.

The chapter shows that the LDCs are highly integrated into the global economy through international flows of goods, services, capital and people (i.e. migrant workers and their remittances). Strong economic growth has been driven by record levels of exports, particularly associated with high commodity prices for minerals and oils, and record levels of capital inflows, especially aid. However, despite their high GDP growth, LDCs are still characterized by low levels of domestic resource mobilization and investment, very weak development of manufacturing industries, high levels of commodity dependence, weak export upgrading, worsening trade balances, and rising food and energy import bills. These conditions imply that LDCs are very vulnerable to growth slow-downs, or even growth collapses, arising from external sources. Despite their high level of integration, the LDCs remain marginalized in terms of their share of global output and global trade.

Strong economic growth has been driven by record levels of exports and of capital inflows.

The easing of the debt burden in a number of LDCs through the Multilateral Debt Relief Initiative (MDRI) in 2006 opened a window of opportunity for 16 LDCs that were eligible. However, aid disbursements are still below donor commitments. Moreover, aid is focused on social sectors and social infrastructure, notably education, health and good governance, rather than on increasing investment in economic infrastructure and the development of productive sectors. Increased foreign direct investment (FDI) inflows are now associated with rapidly increasing profit remittances. With the global economy slowing and the downside risks of the global outlook worsening, LDCs will face major challenges in the period ahead. This will require renewed efforts by both the LDCs and their development partners to develop their productive base and address structural weaknesses. Otherwise, the marginalization of the LDCs in the global economy is likely to deepen.

LDCs remain very vulnerable to growth slow-downs, or even growth collapses, arising from external sources.

This chapter is organized into five substantive sections, each of which identifies: (a) the overall pattern for the LDCs as a group; (b) regional differences between African, Asian and island LDCs; and (c) variations amongst individual LDCs. Section B describes trends in economic growth and sectoral growth rates, whilst section C focuses on trends in domestic savings and investment. Section D highlights trends in international trade, including commodity prices, the extent of export upgrading and the level of participation of the LDCs in world trade. Section E focuses on trends in external finance — including trends in official development assistance (ODA) and FDI inflows — whilst section F discusses trends in external debt, including the impact of the MDRI. The conclusion summarizes the major findings and policy implications.

B. Trends in economic growth

1. Overall GDP and GDP per capita growth rates

The growth rate of the LDCs surpassed the goal of the Brussels Programme of Action for LDCs — namely a GDP growth rate of 7 per cent.

In 2005, the real GDP of the LDCs as a group grew by 7.9 per cent, which was the strongest growth performance since 1972. There was a slight slowdown of the growth rate in 2006 to 7.5 per cent.[1] But this was still the second highest growth rate in more than three decades. The average annual growth rate in 2005–2006 was almost 2 percentage points higher than the 5.9 per cent per annum achieved during 2000–2004, and almost double the average annual rate of 4 per cent achieved during the 1990s (table 1). The growth rate of the LDCs as a group achieved in 2005 and 2006 surpassed the goal of the Brussels Programme of Action for LDCs — namely a GDP growth rate of 7 per cent (United Nations, 2001).[2] But estimates suggest that the growth rate of the LDCs slowed down further to 6.7 per cent in 2007. This was mainly due to slower growth projected for oil-importing LDCs.

Despite the record GDP growth performance, the LDCs as a group continue to diverge from the other developing countries in terms of income per capita.

The high growth rates of the LDCs in 2005 and 2006 coincided with robust growth in the global economy. Other developing countries also experienced very high growth rates during these years. It is notable that the LDC growth rate exceeded the average for other developing countries in both 2005 and 2006, and that this situation also prevailed during 2000–2004. However, population growth rates are high in the LDCs — 2.5 per cent per annum — almost double the average rate in other developing countries. Thus, even though the GDP growth rate in LDCs as a group exceeded the average in other developing countries, the GDP per capita growth rate of the former has continued to lag behind that of the latter in all years except 2005. This implies that, despite the record GDP growth performance, the LDCs as a group continue to diverge from the other developing countries in terms of income per capita.

Table 1. Real GDP and real GDP per capita growth rates of LDCs, by country groups, other developing countries and OECD high-income countries, 1990–2007

(Annual weighted averages, per cent)

	Real GDP					Real GDP per capita				
	1990–2000	*2000–2004*	*2005*	*2006*	*2007 proj.[a]*	*1990–2000*	*2000–2004*	*2005*	*2006*	*2007 proj.[a]*
LDCs	**4.0**	**5.9**	**7.9**	**7.5**	**6.7**	**1.3**	**3.4**	**5.3**	**5.0**	**4.3**
African LDCs (and Haiti)	3.4	5.6	7.9	8.2	8.9	0.6	2.7	5.0	5.3	6.2
African LDCs less African oil exporters	2.5	4.4	6.1	6.5	6.2	-0.2	1.6	3.3	3.7	3.4
Asian LDCs	5.1	6.5	7.9	6.4	6.0	2.6	4.4	5.8	4.3	4.1
of which: Bangladesh	4.9	5.4	6.7	6.5	6.2	2.8	3.4	4.8	4.7	4.5
Island LDCs	4.3	3.6	2.4	7.5	6.9	2.3	0.5	-0.6	4.6	4.3
Other developing countries	5.0	4.9	6.5	6.9	6.4	3.4	3.5	5.2	5.6	5.2
OECD high-income countries	2.6	1.8	2.4	3.0	2.3	1.8	1.2	1.8	2.5	1.8
Memo items:										
Oil-exporting LDCs	5.1	7.4	10.5	10.6	12.4	2.1	4.6	7.6	7.8	9.7
Oil-importing LDCs	3.7	5.4	7.0	6.5	6.1	1.1	2.9	4.5	4.0	3.7

Source: UNCTAD secretariat calculations based on data from United Nations/DESA Statistics Division; United Nations Population Unit; and UNCTAD estimates.

Note: Data are available for all 50 LDCs, including Cape Verde. Data for Timor-Leste have been estimated backward and is available from 1990.

a Growth rates for the year 2007 are taken from the Link Project Global Economic Outlook, Regional Data, online, January 2008; United Nations ESCAP data, direct communication; and OECD, *African Economic Outlook 2007*.

2. Differences in economic performance amongst LDCs

African LDCs did particularly well in both 2005 and 2006, after Asian LDCs had outperformed African LDCs during the period 2000–2004. The real GDP growth rates in African and Asian LDCs were the same in 2005 (7.9 per cent), while in 2006 the real GDP growth rate in African LDCs exceeded that in Asian LDCs by 1.7 percentage points. African oil exporters pulled up the regional average. But an important feature of economic trends in 2005 and 2006 was the continued improvement in the growth performance of oil-importing African LDCs. Their average annual real GDP growth rate was only 2.5 per cent in the 1990s, but was 4.4 per cent in 2000–2004, and is estimated to have exceeded 6 per cent in 2005, 2006 and 2007. The GDP growth rates of the island LDCs appear to be highly volatile, as low as 2.4 per cent in 2005 and as high as 7.5 per cent in 2006. The big increase is mainly due to the exceptional growth performance of the Maldives in 2006.

All the Asian LDCs were in the very high growth group with the exception of Nepal and Yemen.

A closer look at growth performance on a country-by-country basis shows that there are large variations amongst the LDCs. In 2006, the real GDP grew by 6 per cent or more in 19 LDCs; between 3 and 6 per cent in 20 LDCs; by less than 3 per cent in 9 LDCs; and it declined in two LDCs (table 2). It is notable that all the Asian LDCs were in the very high growth group (i.e. the first group), with the exception of Nepal — which experienced a major armed conflict over the period 2002–2005 and continuing political instability in 2006 — and Yemen. Apart from Afghanistan, which received large aid inflows, the very high-growth Asian countries either specialized in manufactures exports or such exports constituted a significant component in a mixed export basket. Twelve of the 34 African LDCs were in the very high growth group, and eight of them were oil or mineral exporters, indicating the importance of buoyant oil or mineral prices. None of the francophone African LDCs was in the very high growth group, a trend perhaps related to the problems associated with their currencies being pegged to the appreciating euro. Amongst the island LDCs, only the Maldives was in the very high growth group. Its good performance reflects the bounce-back after the tsunami, helped by high levels of aid inflows.

Despite the record overall GDP growth performance, GDP per capita grew by less than 1 per cent or declined in 16 LDCs (almost one third of the sample).

If these growth rates can be sustained in the future, a few LDCs can be expected to reach the threshold to graduate from LDC status (box 1). However, even supposing that the high growth rates of 2004–2006 would continue, only 15 LDCs would have reached the graduation threshold by 2020, including eight which have already reached it.

To put the overall performance in a comparative perspective, only 11 LDCs were growing at such a pace that their GDP per capita was converging with the average of other developing countries in 2006. Despite the record overall GDP growth performance, GDP per capita stagnated or declined in nine LDCs, and grew by less than 1 per cent or declined in 16 LDCs (almost one third of the sample) (table 2).

During the period 2000–2006, the highest growth rate was evident in mining industries, the exploitation of crude oil, and construction.

3. Sectoral growth rates

During the period 2000–2006, the highest growth rate in the LDCs as a group was evident in non-manufacturing industries — including, in particular, mining industries, the exploitation of crude oil, and construction activities (chart 1). But there were significant differences amongst the sectoral growth rates in African, Asian and island LDCs. In African LDCs, the leading sector was non-manufacturing industrial activities, with an average annual growth rate of 10.3 per cent during the present decade. The leading sector in terms of growth rate in Asian LDCs was manufacturing industries, which is estimated to have grown by 8 per cent per annum from 2000 to 2006. In island LDCs, services emerged as the leading sector, growing at 10.2 per cent per annum over the same period. On average, agricultural growth rates lagged behind the growth rates in other sectors in the major groups of LDCs during the period 2000–2006 (chart 1).

For LDCs as a group, the structure of production is changing, but only very slowly.

The sectoral pattern of growth implies that, for LDCs as a group, the structure of production is changing, but only very slowly. Agriculture contributed 33 per cent of total GDP in 2005–2006, compared with 36 per cent 10 years earlier (table 3). The share of manufacturing in total value added only increased marginally — from 10 per cent to 11 per cent of total GDP over this period — whilst the share of services declined marginally, from 42 to 40 per cent. Non-manufacturing industries (especially oil extraction and mining) are of increasing importance, particularly within African LDCs, where they are estimated to account for 19 per cent of total GDP.[3]

The share of agriculture in GDP actually increased from 1995–1996 to 2005–2006 in 18 LDCs.

Within this overall pattern of sluggish structural change, there are significant differences amongst LDCs, and the share of agriculture in GDP actually increased from 1995–1996 to 2005–2006 in 18 LDCs. Only four of these LDCs were in the group of the 19 LDCs which achieved very high growth in 2006. At the other end of the spectrum, there were 18 LDCs where the share of agriculture in GDP declined by more than 5 percentage points, in some cases much more, over the 10-year period. In most cases, the decline in the economic importance of agriculture has been accompanied by a sharp increase in the relative importance of services (as in the cases of Afghanistan, Ethiopia, Liberia, Burundi, Mauritania, Samoa and Tuvalu) or non-manufacturing industries (as in the cases of Equatorial Guinea,

Box 1. Growth and graduation from LDC status

The recent high rates of the LDCs' GDP growth raise the issue of how this affects their graduation prospects. This box makes a simulation of the likely future dates of graduation of LDCs if current growth rates were sustained in the future.

It must be stressed that decisions about graduation from the LDC category — which the United Nations Economic and Social Council reviews every three years based on recommendations provided by the Committee for Development Policy — are based on three criteria: (a) low income; (b) human assets; and (c) economic vulnerability. A country needs to meet at least two of the three graduation thresholds to qualify for graduation. The focus on the first criterion is thus a partial analysis.

It should also be noted that the thresholds for graduation are reassessed from time to time. The present simulation is based on a low-income graduation threshold equal to $1,040 per capita GNI. This corresponds to the average for the low-income countries during the period 2004–2006 plus the customary extra 20 per cent.

Under the assumption that the annual GNI per capita (assumed to grow at the same rate of GDP per capita) growth rates of the individual LDCs during the period 2004–2006 will continue in the future, it is possible to estimate the number of years that it will take them to reach the estimated income graduation threshold.

Box table 1 lists the average GNI per capita of the LDCs, and the estimates of the number of years needed by each LDC to reach the graduation threshold if the current average annual growth rates are maintained.

From the table, it is apparent that eight LDCs already meet the income threshold for graduation, while another three are close. Amongst the countries that have reached the graduation threshold, there are two oil-exporting LDCs and five island LDCs. Cape Verde has already graduated from the group, while the Maldives and Samoa are scheduled to graduate in 2011.

The remaining 30 LDCs have been divided into two sub-groups: Countries that would reach the income graduation threshold in the medium term and those that would reach it in the long term. Twenty-one of the 28 oil-importing African LDCs are included in these last two sub-groups. The group of countries that would reach the income threshold in the long term includes thirteen countries that would reach the income graduation level in less than 50 years and another twelve that have been estimated as taking more than 50 years. Within the first sub-group, there are large differences among countries. On the one hand, Senegal, Solomon Islands and Zambia would reach the graduation threshold in 20 years, Ethiopia in 25 years, and the United Republic of Tanzania in 30 years; on the other hand, Uganda and Mali would reach the income graduation level in 45 years. Since the estimation of the time period required to reach the income graduation threshold is based on the countries' performance during the period 2004–2006, a worsening of the economic performance will increase the estimated number of years necessary to meet the income threshold level.

Box 1 (contd.)

Box table 1. Estimation of the number of years needed to meet the graduation threshold for LDCs, by country, 2004-2006

	GNI per capita[a]	Years[b]
Countries that have reached the income threshold		
Equatorial Guinea	5 620	Achieved
Vanuatu	1 580	Achieved
Kiribati	1 157	Achieved
Cape Verde	1 913	Achieved
Samoa	2 017	Achieved
Maldives	2 480	Achieved
Bhutan	1 253	Achieved
Angola	1 443	Achieved
Countries that are close to reaching to income threshold[c]		
Djibouti	1 013	1
Sudan	660	6
Mauritania	610	8
Countries that should reach the income threshold in the medium term[c]		
Lesotho	893	10
Cambodia	430	11
Sao Tome and Principe	780	11
Lao People's Democratic Republic	457	15
Bangladesh	463	17
Countries that should reach the income threshold in the long term[c]		
Zambia	510	20
Senegal	683	20
Solomon Islands	630	20
Mozambique	307	24
Ethiopia	157	25
Sierra Leone	223	29
United Republic of Tanzania	337	30
Burkina Faso	413	34
Yemen	660	38
Chad	417	40
Guinea	430	40
Uganda	277	45
Mali	383	45
Gambia	290	> 50
Democratic Republic of the Congo	120	> 50
Rwanda	230	> 50
Madagascar	287	> 50
Malawi	163	> 50
Liberia	123	> 50
Niger	237	> 50
Central African Republic	340	> 50
Guinea-Bissau	177	> 50
Haiti	453	> 50
Nepal	270	> 50
Benin	500	> 50

Source: UNCTAD secretariat calculations based on World Bank, *World Development Indicators*, online data, March 2008.

Note: No data for Afghanistan, Myanmar, Somalia and Tuvalu.
Burundi, Comoros, Eritrea, Timor-Leste and Togo have been excluded from the computation as their real average annual growth rates are negative.
Countries have been ranked according to the number of years necessary to reach the income threshold of $1,040. See box text for an explanation of how the threshold was calculated.

a Calculated with the World Bank Atlas method.
b The years have been estimated using the formula ln(1,040) - ln(GNI pc_0)/(GDP pc growth rate). It is assumed that real GNI pc and real GDP pc grow at the same rate.
c Assuming that the LDCs will grow at the same average annual growth rate as in 2004-2006 and that everything else stays constant.

Table 2. Real GDP and real GDP per capita growth rates of LDCs, by country, 2000–2007

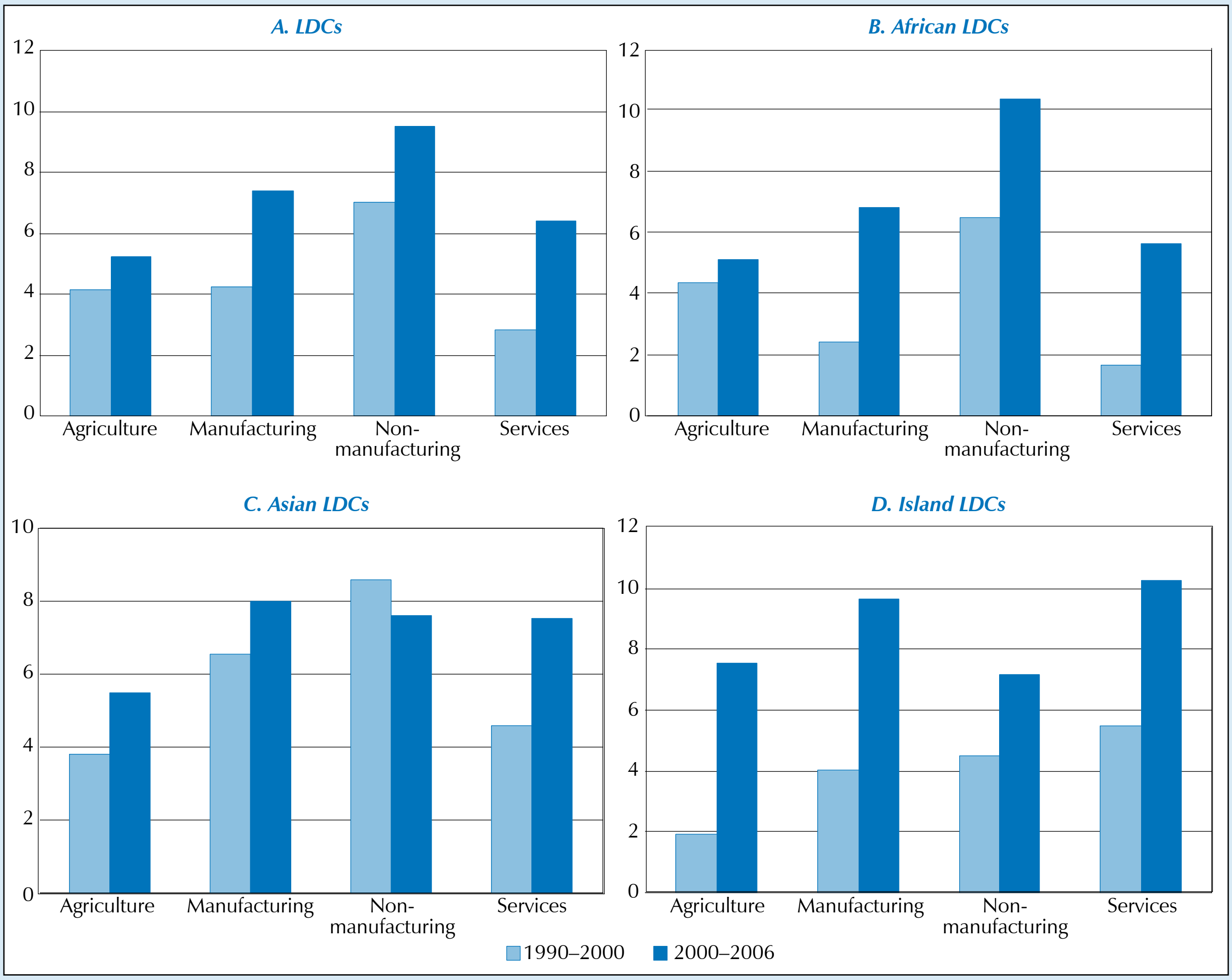
(Annual averages, per cent)

	Export specialization	Real GDP				Real GDP per capita			
		2000–2004	2005	2006	2007 proj.	2000–2004	2005	2006	2007 proj.
Countries with real GDP growth > 6% in 2006									
Maldives	S	7.5	-4.0	21.7	6.6	5.8	-5.6	19.7	4.8
Angola	O	8.1	20.6	14.3	21.0	5.0	17.2	11.1	18.2
Mauritania	MN	3.6	5.4	14.1	6.3	0.6	2.5	11.1	3.7
Sudan	O	6.5	7.9	12.1	11.0	4.4	5.7	9.7	8.7
Afghanistan	A	14.8	14.5	11.1	13.0	10.6	10.0	6.8	8.9
Ethiopia	S	3.3	10.3	10.6	9.5	0.7	7.5	7.9	6.9
Sierra Leone	MN	14.2	7.5	9.7	6.5	9.3	3.7	6.8	4.4
Mozambique	MN	8.9	6.2	8.5	7.5	6.3	3.8	6.3	5.5
Malawi	A	2.9	1.9	8.5	4.8	0.3	-0.7	5.8	2.2
Bhutan	MF	8.0	6.5	8.5	17.1	5.1	4.2	6.5	15.6
Lao People's Democratic Republic	MX	6.0	7.3	7.3	7.4	4.3	5.6	5.5	5.7
Cambodia	MF	7.7	13.4	7.2	8.5	5.8	11.5	5.4	6.8
Liberia	A	-8.7	5.3	7.0	9.5	-10.6	2.4	2.9	4.7
Myanmar	MX	12.7	13.2	7.0	4.2	11.7	12.3	6.1	3.3
Bangladesh	MF	5.4	6.7	6.5	6.2	3.4	4.8	4.7	4.5
Democratic Republic of the Congo	MN	3.6	6.5	6.5	6.5	0.7	3.2	3.2	3.2
Uganda	A	5.7	6.5	6.2	6.0	2.4	3.1	2.8	2.7
Burundi	MN	2.3	0.9	6.1	3.2	-0.9	-2.9	2.0	-0.9
Zambia	MN	4.5	5.1	6.0	5.5	2.5	3.2	4.1	3.6
Countries with real GDP growth between 3% and 6% in 2006									
United Republic of Tanzania		6.9	6.9	5.9	7.0	4.2	4.3	3.3	4.5
Burkina Faso	A	6.3	5.9	5.9	6.0	2.9	2.6	2.7	3.0
Gambia	S	3.2	5.0	5.6	7.0	0.0	2.0	2.7	4.3
Sao Tome and Principe	S	4.0	3.0	5.5	5.5	2.2	1.3	3.8	3.9
Cape Verde	S	5.1	5.8	5.5	7.0	2.6	3.3	3.1	4.7
Guinea	MN	3.0	3.3	5.0	5.0	1.1	1.4	3.0	2.9
Solomon Islands	A	0.9	5.0	5.0	5.4	-1.7	2.4	2.5	3.0
Madagascar	MX	0.9	4.6	4.7	6.4	-1.9	1.7	1.9	3.7
Guinea-Bissau	A	-1.5	3.5	4.6	5.2	-4.5	0.4	1.5	2.2
Mali	MN	6.3	6.1	4.6	5.4	3.2	3.0	1.5	2.3
Djibouti	S	2.8	3.2	4.2	5.0	0.8	1.4	2.4	3.2
Togo	MX	2.4	0.8	4.2	5.5	-0.5	-1.9	1.4	2.8
Senegal	MX	4.2	5.5	4.0	5.4	1.5	2.8	1.4	2.9
Samoa	S	3.4	5.1	4.0	3.0	2.6	4.4	3.1	2.1
Yemen	O	3.8	4.6	3.9	3.7	0.8	1.5	0.9	0.7
Benin	A	4.4	2.9	3.6	5.0	1.0	-0.4	0.4	1.9
Niger	MN	4.1	7.1	3.5	4.0	0.5	3.4	0.0	0.4
Vanuatu	S	-0.5	3.1	3.4	2.5	-3.0	0.5	0.9	0.1
Central African Republic	MN	-2.2	2.2	3.2	4.0	-3.8	0.5	1.4	2.2
Rwanda	S	5.1	6.0	3.0	4.8	2.5	3.9	0.5	2.0
Countries with real GDP growth < 3% in 2006									
Chad	O	15.5	8.6	2.9	2.5	11.3	5.0	-0.3	-0.5
Somalia	A	2.9	2.4	2.4	-3.5	-0.1	-0.6	-0.6	-6.5
Haiti	MF	-0.9	1.8	2.3	3.5	-2.5	0.2	0.7	1.9
Eritrea	S	3.5	4.8	2.0	2.0	-0.7	0.8	-1.6	-1.4
Nepal	MF	2.7	2.7	1.9	2.6	0.5	0.7	-0.1	0.6
Lesotho	MF	2.9	2.9	1.6	1.4	1.8	2.2	0.9	0.8
Comoros	S	2.2	2.8	1.2	1.0	-0.5	0.2	-1.3	-1.5
Tuvalu	A	6.2	2.0	1.0	2.5	5.7	1.6	0.6	2.1
Kiribati	A	2.9	3.6	0.8	1.0	1.0	1.8	-0.9	-0.6
Equatorial Guinea	O	28.3	9.3	-1.0	10.0	25.4	6.8	-3.3	7.6
Timor-Leste	O	-0.8	2.2	-1.6	32.1	-6.1	-2.9	-5.7	28.4

Source: UNCTAD secretariat estimates based on United Nations/DESA Statistics Division; United Nations/DESA *Link Global Economic Outlook*, online, January 2008; United Nations ESCAP data and estimates; and OECD, *African Economic Outlook* 2006/07.

Note: **A**=agricultural exporter, **MF**=manufactures exporter, **MN**=mineral exporter, **MX**=mixed exporters, **O**=oil exporter, **S**=services exporter. Countries are ranked in decreasing order according to the real GDP growth rate in 2006.

Chart 1. Real GDP growth rates by major economic sectors, by country groups, 1990–2006
(Average annual growth rates, per cent)



Source: UNCTAD secretariat calculations based on United Nations/DESA Statistics Division.
Note: Non-manufacturing includes mining, utilities and construction.

United Republic of Tanzania, Bhutan, Chad and Mali). The relative decline in the importance of agriculture is associated with a significant rise in the importance of manufacturing in only three LDCs — Cambodia, the Lao People's Democratic Republic and Mozambique. Both Burkina Faso and Uganda exhibited a more balanced pattern of structural change, with the relative share of manufacturing, non-manufacturing industries and services all increasing while the relative share of agriculture in GDP declines.

The share of manufacturing in GDP for the LDCs as a group continues to lag far behind the average in other developing countries and this gap is widening.

The share of manufacturing in GDP during 2005–2006 for the LDCs as a group (11 per cent) continues to lag far behind the average in other developing countries (24 per cent). Indeed, this gap is widening. Moreover, from 1995–1996 to 2005–2006, half of the LDCs experienced de-industrialization reflected in the declining importance of manufactures in GDP. These trends suggest that the recent growth surge in LDCs is not generally associated with a structural transition in which the share of manufactures in total output is growing (except for most Asian LDCs). It also indicates the failure to develop productive capacities in LDCs and the weak development of the productive base of their economies, irrespective of strong GDP growth.

Table 3. Share of value added in main economic sectors in LDCs, by country and country groups, 1995–2006
(Per cent of value added)

	Agriculture		Industry				Services	
			Manufacturing		*Non-manufacturing*[a]			
	1995–1996	2005–2006	1995–1996	2005–2006	1995–1996	2005–2006	1995–1996	2005–2006
Countries with increasing share of manufacture in value added								
Afghanistan	50.4	24.1	4.1	8.9	0.6	2.3	45.0	64.7
Bangladesh	27.1	22.9	15.9	17.4	9.6	11.9	47.4	47.8
Burkina Faso	36.2	26.5	12.1	15.2	5.3	8.5	46.4	49.8
Cambodia	46.8	33.4	8.2	18.8	6.8	10.3	38.2	37.6
Central African Republic	43.5	50.9	10.2	11.1	7.2	7.9	39.1	30.1
Djibouti	3.4	3.7	2.7	2.8	12.7	14.4	81.2	79.1
Equatorial Guinea	43.1	6.9	1.2	10.5	35.1	75.2	20.6	7.4
Eritrea	19.4	19.8	9.3	9.3	9.7	14.3	61.6	56.5
Ethiopia	59.0	53.0	3.5	3.6	4.8	6.0	32.7	37.4
Gambia	22.6	24.5	5.1	5.2	5.1	5.3	67.3	65.0
Guinea	23.6	25.0	4.5	4.7	29.2	31.2	42.6	39.1
Haiti	32.7	30.7	7.5	7.8	11.3	16.2	48.5	45.3
Lao People's Democratic Republic	54.5	45.9	15.0	20.4	5.2	8.1	25.3	25.6
Liberia	86.1	63.6	1.9	9.1	1.9	5.2	10.2	22.1
Madagascar	30.3	27.5	11.8	11.9	1.2	2.9	56.7	57.7
Mozambique	34.1	27.5	8.2	16.7	6.9	10.6	50.7	45.3
Myanmar	54.7	49.5	8.0	9.8	4.9	7.5	32.4	33.3
Sao Tome and Principe	31.4	32.6	4.1	4.1	13.4	13.4	51.1	49.9
Somalia	58.7	56.1	2.3	2.6	4.8	5.4	34.2	35.9
Sudan	42.3	49.6	7.9	8.2	7.7	16.9	42.1	25.2
Togo	42.4	43.8	6.2	6.4	16.4	16.7	35.0	33.1
Uganda	45.2	36.7	9.1	10.8	8.0	10.0	37.7	42.5
United Republic of Tanzania	46.3	41.3	7.9	8.7	8.0	12.0	37.7	38.1
Yemen	21.2	21.3	9.1	9.7	22.1	16.6	47.6	52.5
Zambia	26.7	23.2	35.4	39.9	5.2	-1.5	32.8	38.4
Countries with decreasing share of manufacture in value added								
Angola	7.3	7.8	3.7	3.6	64.5	62.8	24.6	25.8
Benin	39.3	40.3	8.7	8.6	4.7	4.8	47.3	46.3
Bhutan	30.4	16.6	10.2	6.5	27.8	42.2	31.6	34.8
Burundi	54.4	46.9	13.1	7.5	4.2	3.8	28.4	41.8
Cape Verde	10.5	8.7	8.9	5.4	15.0	13.9	65.6	72.0
Chad	51.5	35.1	9.3	7.9	1.6	25.3	37.7	31.7
Comoros	39.9	48.8	4.5	4.2	7.8	6.8	47.9	40.2
Democratic Republic of the Congo	41.8	44.5	8.7	5.7	17.6	19.1	31.8	30.7
Kiribati	13.1	12.2	1.3	1.1	4.4	10.9	81.2	75.8
Lesotho	15.8	12.3	17.4	16.8	22.2	25.0	44.7	46.0
Malawi	52.7	54.3	15.9	12.3	9.6	13.0	21.7	20.5
Maldives	10.6	9.0	7.2	6.9	5.4	10.1	76.7	74.0
Mali	40.7	35.3	10.0	9.0	8.8	17.2	40.5	38.5
Mauritania	39.3	20.6	8.2	6.6	15.1	18.3	37.3	54.5
Nepal	42.5	41.0	9.0	8.3	10.8	11.3	37.7	39.4
Niger	37.9	41.8	7.0	6.0	8.4	7.0	46.7	45.2
Rwanda	43.9	46.4	14.3	12.1	5.8	10.4	36.0	31.1
Samoa	21.3	12.4	17.6	14.2	10.0	12.1	51.2	61.4
Senegal	18.4	14.4	15.7	15.2	7.2	8.4	58.7	62.0
Sierra Leone	39.5	44.9	3.7	3.0	7.9	10.9	48.9	41.2
Solomon Islands	46.3	45.8	4.1	4.0	6.1	3.7	43.5	46.5
Timor-Leste	25.2	36.5	3.3	2.7	23.7	14.2	47.8	46.6
Tuvalu	22.6	14.0	2.1	1.7	11.7	13.8	63.6	70.5
Vanuatu	15.7	16.3	3.3	2.7	5.8	5.2	75.2	75.8
Guinea-Bissau	46.4	52.7	..	..	..	..	31.7	27.9
LDCs	**35.9**	**33.2**	**10.4**	**11.2**	**12.1**	**16.0**	**41.6**	**39.6**
African LDCs	*37.7*	*35.9*	*8.9*	*9.1*	*13.5*	*19.2*	*39.8*	*35.8*
Asian LDCs	*33.2*	*29.1*	*13.0*	*14.7*	*9.6*	*11.1*	*44.1*	*45.2*
Island LDCs	*23.2*	*20.9*	*6.3*	*5.4*	*10.8*	*10.4*	*59.8*	*63.3*

Source: UNCTAD secretariat calculations based on United Nations/DESA Statistics Division.
Note: The group averages are weighted averages.
a Includes mining, utilities and construction.

C. Trends in investment and savings

For the LDCs as a group, gross capital formation increased from 20 per cent of GDP in 2000–2002 to 22 per cent in 2006, and over the same period, gross domestic savings increased from 13 per cent of GDP to 21 per cent. However, a closer look at the trends country-by-country shows that the overall averages for the LDCs as a group mask a very mixed picture, with many of these countries unable to raise domestic savings, increasing their reliance on foreign savings (table 4).

For the LDCs as a group, the resource gap, which indicates reliance on foreign resources, has fallen from 7 per cent of GDP in 2000–2002 to 1.6 per cent in 2006, but...

From 2000 to 2006, gross capital formation actually declined as a share of GDP in 17 LDCs, and domestic savings also declined over that period in almost half of the LDCs, some 22 countries. The big jump in the domestic savings rates over this period were found in the oil- and mineral-exporting LDCs — Angola, Chad, Equatorial Guinea, Mauritania, Mozambique and Sudan — plus the Lao People's Democratic Republic.

In 2006, the highest domestic savings rates were found in Equatorial Guinea (91 per cent of GDP), Chad (52 per cent), Angola (41 per cent), Lao People's Democratic Republic (33 per cent), Maldives (32 per cent), Bhutan (29 per cent), Mozambique (28 per cent), Sudan (26 per cent), Yemen (24 per cent) and Mauritania (23 per cent). Oil- and mineral-exporting LDCs — in which the growth of domestic savings was highly correlated with rents from extractive activities — are prominent in this list. Fifteen LDCs — mostly small countries — had negative domestic savings rates in 2006 and thus were relying on foreign savings to finance not only domestic investment but also their domestic consumption. These countries included five very high-growth countries — Afghanistan, Burundi, Malawi, Liberia and Sierra Leone. Only one third of the LDCs had gross domestic savings above 15 per cent of GDP and savings rates remained very low in a number of African LDCs which have had relatively sustained growth performance over a number of years, including Burkina Faso, Ethiopia, Uganda, the United Republic of Tanzania and Senegal.

...fifteen LDCs — mostly small countries — had negative domestic savings rates in 2006 and thus were relying on foreign savings to finance domestic investment and consumption.

The overall trends of gross capital formation and gross domestic savings for the LDCs as a group suggest that the resource gap, which indicates reliance on foreign resources, has fallen quite significantly since 2000. It declined from 7 per cent of GDP in 2000–2002 to 1.6 per cent in 2006. However, the resource gap exceeded 10 per cent of GDP in 33 LDCs in 2006 and in 17 of these it exceeded 20 per cent of GDP. The resource gap also increased by more than 1 percentage point in half the LDCs (25 countries), and by more than 5 percentage points in 15 of these countries from 2000–2002 to 2006. The supply of external financial resources thus remains critical for capital formation (and in some cases even for consumption) in most LDCs, and the dependence on external sources of capital has also been increasing for many of them in recent years.

From 2000 to 2006, gross capital formation declined as a share of GDP in 17 LDCs.

D. Trends in international trade

LDCs' export structure remains concentrated on primary commodities and low-skill manufactures, and most of them are net food importers.

International trade is equivalent to over 50 per cent of the GDP of the LDCs as a group, and high rates of export growth have been a key driver of their strong GDP growth performance. However, their export structure remains concentrated on primary commodities and low-skill labour-intensive manufactures. Most LDCs are net food importers. Trade performance is highly dependent on commodity price trends. Trade deficits are increasing in most LDCs, particularly those which specialize in agricultural exports. Despite a high level of integration with the global

Table 4. Gross domestic savings, gross capital formation and resource gap in LDCs, by country and ODCs, 2000–2006

(Per cent of GDP)

	Gross capital formation			Gross domestic savings			Resource gap[a]		
	2000–2002	*2005*	*2006*	*2000–2002*	*2005*	*2006*	*2000–2002*	*2005*	*2006*
Countries with real GDP growth > 6% in 2006									
Maldives	26.6	61.3	55.6	45.2	28.1	32.3	18.5	-33.2	-23.3
Angola	13.6	7.5	13.1	26.8	32.0	40.5	13.2	24.5	27.4
Mauritania	21.8	44.5	29.0	1.5	-14.9	23.1	-20.3	-59.4	-5.9
Sudan	18.5	22.4	23.8	12.9	18.2	26.2	-5.6	-4.1	2.3
Afghanistan	12.6	21.3	17.3	-24.1	-24.8	-30.8	-36.7	-46.1	-48.1
Ethiopia	20.4	20.5	19.8	3.8	6.4	7.6	-16.6	-14.1	-12.1
Sierra Leone	-15.9	18.6	16.5	-48.7	-6.0	-5.5	-32.7	-24.6	-22.1
Mozambique	29.8	20.4	24.8	16.6	18.3	27.7	-13.2	-2.1	3.0
Malawi	13.6	11.0	10.5	1.0	-22.9	-20.6	-12.6	-33.9	-31.0
Bhutan	55.8	51.4	53.5	33.9	39.1	29.2	-21.9	-12.3	-24.3
Lao People's Dem. Republic	17.0	32.0	30.7	12.1	28.2	33.2	-4.9	-3.7	2.5
Cambodia	18.6	19.7	19.3	9.2	11.1	7.5	-9.5	-8.5	-11.8
Liberia	5.5	15.9	12.3	-1.1	2.3	-0.4	-6.6	-13.6	-12.7
Myanmar	11.2	12.6	15.2	11.2	12.7	15.3	0.0	0.1	0.1
Bangladesh	23.2	24.9	25.6	18.3	20.6	21.0	-4.9	-4.3	-4.6
Democratic Republic of the Congo	9.5	14.2	16.7	10.0	6.5	5.4	0.5	-7.7	-11.2
Uganda	19.7	23.8	24.8	5.3	8.7	8.2	-14.4	-15.1	-16.6
Burundi	8.2	15.5	23.2	-7.0	-11.9	-10.0	-15.3	-27.4	-33.2
Zambia	20.6	25.6	25.9	14.7	17.7	18.3	-6.0	-7.9	-7.6
Countries with real GDP growth between 3% and 6% in 2006									
United Republic of Tanzania	17.9	22.2	22.5	11.6	12.4	11.0	-6.4	-9.7	-11.4
Burkina Faso	25.8	22.7	24.5	10.6	8.5	9.6	-15.2	-14.3	-14.8
Gambia	20.9	26.0	24.1	13.6	7.8	5.7	-7.3	-18.2	-18.4
Sao Tome and Principe	34.8	34.5	67.6	-18.3	-24.9	-24.7	-53.0	-59.4	-92.3
Cape Verde	32.9	37.9	38.7	-6.1	3.9	3.2	-38.9	-34.0	-35.5
Guinea	21.0	17.4	21.5	17.3	7.5	10.6	-3.6	-10.0	-10.9
Solomon Islands	19.6	19.6	19.6	19.6	19.6	19.6	0.0	0.0	0.0
Madagascar	16.0	21.5	21.7	10.4	13.0	9.0	-5.6	-8.6	-12.7
Guinea-Bissau	17.8	14.6	15.7	5.3	-2.8	1.5	-12.5	-17.4	-14.2
Mali	20.0	21.4	22.5	14.3	18.0	17.4	-5.7	-3.4	-5.1
Djibouti	19.4	20.2	19.7	7.6	9.6	8.7	-11.8	-10.7	-11.0
Togo	16.8	19.7	20.8	1.7	1.0	3.7	-15.1	-18.7	-17.1
Senegal	18.6	25.7	25.6	9.0	9.9	8.6	-9.6	-15.8	-17.0
Samoa	13.8	10.4	9.8	-12.7	-14.0	-13.9	-26.5	-24.4	-23.7
Yemen	19.0	21.9	21.5	21.3	21.4	23.8	2.3	-0.5	2.3
Benin	18.9	18.2	21.0	11.6	11.2	11.7	-7.3	-7.0	-9.3
Niger	15.1	19.3	22.8	6.5	8.0	9.1	-8.6	-11.4	-13.7
Vanuatu	21.1	20.4	20.2	18.5	15.8	15.9	-2.6	-4.6	-4.3
Central African Republic	8.4	6.0	5.7	0.9	-4.2	-4.9	-7.5	-10.2	-10.6
Rwanda	17.7	21.1	20.8	0.4	-1.4	-4.2	-17.3	-22.5	-25.0
Countries with real GDP growth < 3% in 2006									
Chad	40.3	26.7	23.6	4.8	54.5	51.9	-35.5	27.8	28.3
Somalia	20.3	20.3	20.3	19.0	19.0	18.9	-1.4	-1.4	-1.4
Haiti	12.3	13.0	28.6	-9.5	-9.5	-0.3	-21.9	-22.5	-28.9
Eritrea	25.2	19.0	18.1	-31.7	-30.2	-19.0	-56.9	-49.2	-37.1
Nepal	24.2	28.9	30.3	14.1	12.4	11.1	-10.1	-16.5	-19.2
Lesotho	41.4	35.1	41.1	-20.0	-1.5	-2.0	-61.4	-36.6	-43.1
Comoros	12.4	10.9	13.8	-1.6	-6.9	-6.8	-14.0	-17.8	-20.6
Tuvalu	55.6	55.8	55.7	-45.3	-45.3	-45.3	-100.9	-101.2	-101.1
Kiribati	43.5	43.7	43.6	2.1	1.8	1.9	-41.4	-41.8	-41.6
Equatorial Guinea	53.0	36.0	33.2	80.1	88.9	90.7	27.1	52.9	57.4
Timor-Leste	29.2	19.1	19.0	-38.7	-17.3	-18.6	-67.9	-36.4	-37.6
LDCs	**19.8**	**21.2**	**22.2**	**12.8**	**17.5**	**20.7**	**-7.0**	**-3.7**	**-1.6**
ODCs	**25.0**	**27.7**	**27.5**	**27.9**	**33.3**	**33.4**	**2.9**	**5.6**	**5.9**

Source: UNCTAD secretariat calculations based on United Nations/DESA Statistics Division.

a Measured as the difference between gross domestic savings and gross capital formation.

economy and good export performance, the marginalization of the LDCs in global trade has declined only slightly if oil is excluded. Marginalization is rooted in the continuing failure of export upgrading.

1. Overall trends in merchandise trade

In nominal terms, the value of LDCs' merchandise exports has more than doubled since 2003, reaching a record level of $99.3 billion in 2006. This was $23 billion above the level in 2005 and $43 billion above the value in 2004 (table 5). This improved export performance was largely attributable to rising international commodity prices. With oil and mineral prices rising, exports from the African LDCs almost doubled from 2004 to 2006, whilst they increased by 53 per cent in the Asian LDCs.

Despite a high level of integration with the global economy and the good export performance, the marginalization of the LDCs in global trade has declined only slightly if oil is excluded.

LDCs' improved export performance was largely attributable to rising international commodity prices.

Table 5. LDCs' exports, imports and balance of merchandise trade, by country groups, 2003–2006

	2003	2004	2005	2006	2004–2006
	$ million				*% change[a]*
Merchandise exports					
LDCs total	***43 535***	***55 878***	***76 514***	***99 295***	***77.7***
African LDCs	27 078	36 288	51 874	69 448	91.4
Asian LDCs	16 078	19 118	24 098	29 244	53.0
Island LDCs	380	472	542	603	27.6
Oil exporters	17 007	23 837	38 301	51 731	117.0
Non-oil exporters	26 528	32 041	38 212	47 564	48.4
Agricultural exporters	2 984	3 236	3 977	4 413	36.4
Mineral exporters	5 942	7 741	9 192	13 000	67.9
Manufactures exporters	10 133	13 026	14 701	18 256	40.1
Services exporters	1 978	2 410	3 004	3 297	36.8
Mixed exporters	5 491	5 628	7 338	8 599	52.8
Merchandise imports					
LDCs total	***59 871***	***69 418***	***86 282***	***100 464***	***44.7***
African LDCs	36 170	43 412	55 110	65 362	50.6
Asian LDCs	22 150	24 192	29 107	32 658	35.0
Island LDCs	1 551	1 814	2 065	2 443	34.7
Oil exporters	11 176	12 658	19 006	22 348	76.6
Non-oil exporters	48 694	56 760	67 276	78 116	37.6
Agricultural exporters	10 444	11 699	15 284	17 733	51.6
Mineral exporters	8 115	10 782	12 540	14 304	32.7
Manufactures exporters	16 179	18 358	20 666	23 858	30.0
Services exporters	7 055	8 113	10 406	13 244	63.2
Mixed exporters	6 901	7 809	8 380	8 976	14.9
Merchandise trade balance					
LDCs total	***-16 335***	***-13 540***	***-9 769***	***-1 169***	***-91.4***
African LDCs	-9 092	-7 125	-3 237	4 086	N/A
Asian LDCs	-6 073	-5 074	-5 009	-3 414	-32.7
Island LDCs	-1 171	-1 342	-1 523	-1 841	37.2
Oil exporters	5 831	11 180	19 295	29 383	162.8
Non-oil exporters	-22 166	-24 720	-29 064	-30 552	23.6
Agricultural exporters	-7 460	-8 463	-11 306	-13 321	57.4
Mineral exporters	-2 173	-3 041	-3 348	-1 304	-57.1
Manufactures exporters	-6 046	-5 332	-5 966	-5 602	5.1
Services exporters	-5 077	-5 703	-7 402	-9 947	74.4
Mixed exporters	-1 410	-2 181	-1 042	-377	-82.7

Source: UNCTAD secretariat calculations based on UNCTAD, *Handbook of Statistics 2007* and UNCTAD estimates.

Note: Data for Afghanistan, Chad, Liberia, Somalia and Tuvalu have been estimated using mirror trade data.

a Percentage change in trade values between initial and end year.

64 per cent of the total increase in LDCs merchandise exports from 2004 to 2006 was attributable to oil exporters, and a further 12 per cent to mineral exporters.

As much as 64 per cent of the total increase in LDCs' merchandise exports from 2004 to 2006 was attributable to oil exporters, and a further 12 per cent to mineral exporters. Manufactures exporters also managed to increase exports significantly over this period, contributing to a 12 per cent increase in LDCs' total merchandise export revenues. But export growth was comparatively slow in LDCs agricultural exporters, constituting only 3 per cent of the increase in merchandise export revenues from 2004 to 2006. The latter group of countries achieved only a marginal expansion of $400 million in their merchandise exports between 2005 and 2006, in sharp contrast with the booming export performance of other LDCs.

The evidence suggests that most of the LDCs' merchandise exports came from a few countries and that the level of geographical concentration of exports is increasing. The top five LDC exporters — Angola, Bangladesh, Myanmar, Sudan and Yemen — doubled their merchandise exports from 2004 to 2006, and in the latter year, they accounted for 63 per cent of the total merchandise exports of the LDCs. The exports of the 30 LDCs that exported least accounted for only 7 per cent of LDCs' total merchandise exports in 2006, down from 10 per cent in 2004 (table 6).

The merchandise trade surplus of oil-exporting LDCs rose from $11 billion in 2004 to $29 billion in 2006, whilst the merchandise trade deficit of oil-importing LDCs increased from $25 billion to $31 billion.

Although imports have also been increasing, the merchandise trade balance of the LDCs as a group has improved significantly. Indeed, for the first time in over 30 years, their merchandise trade balance was close to equilibrium in 2006 (table 5). However, this result masks large differences amongst the LDCs. The merchandise trade surplus of oil-exporting LDCs rose from $11 billion in 2004 to $29 billion in 2006, whilst the merchandise trade deficit of oil-importing LDCs increased from $25 billion to $31 billion. The majority of the LDCs — 42 of the 50 — had a merchandise trade deficit during the period 2005–2006; that deficit was greater than in 2003–2004 for 37 LDCs (chart 2).

Amongst the oil-importing LDCs, there were also significant differences. Mineral exporters reduced their merchandise trade deficit from 2004, and the deficit did not worsen by much in the manufacture exporters taken as a group. However, the merchandise trade deficit of the LDCs which specialize in agricultural exports considerably worsened in 2005 and 2006, when the deficit reached a record high of $13 billion. Their average merchandise trade deficit in 2005–2006 was equivalent to 18 per cent of their GDP.

Rising trade deficits are also evident in trade in services, despite healthy service export growth (box 2).

2. Trends in international commodity prices

The improved export performance of a large number of LDCs in 2005 and 2006 has been driven by much higher international commodity prices.

The improved export performance of a large number of LDCs in 2005 and 2006 has been driven by increased international demand for commodities, which is leading to much higher international commodity prices.[4] The prices of some commodities of particular importance for the LDCs rose strongly in 2006, following another increase in 2005. However, there is notable difference between the price trends during this period for food and agricultural raw materials on the one hand, and mineral, ores, metals and crude petroleum on the other. Moreover, within each broad category, the prices of some commodities rose much more than others.

The difference between agricultural products and minerals is evident both in 2005 and 2006 (table 7). From 2004 to 2005, the average price indices of food and agricultural raw materials only increased by 6 per cent and 4 per cent

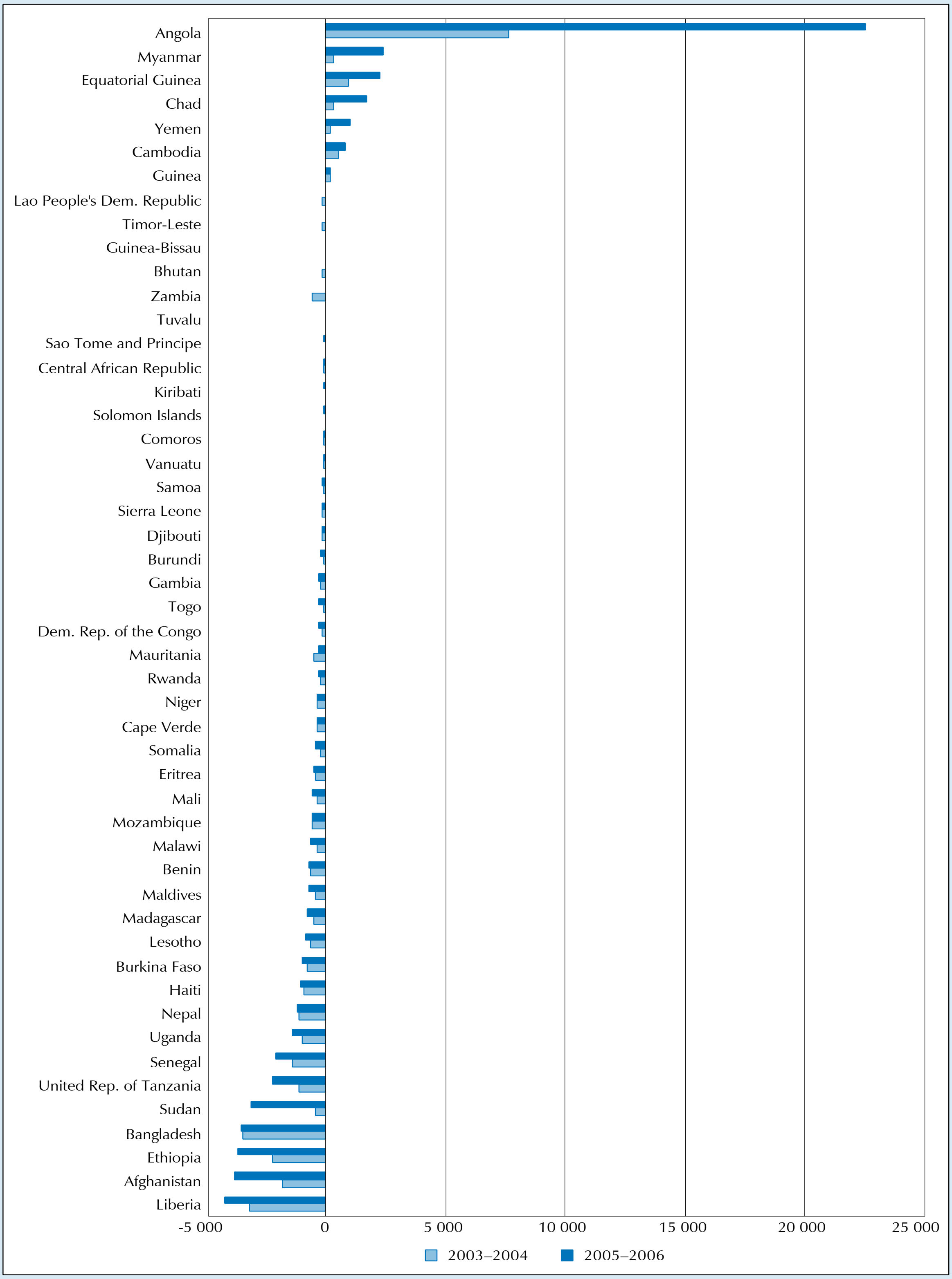
Table 6. LDCs' merchandise exports and imports, by country, 2004–2006

	Export specialization	Exports				Imports			
		$ million	*Annual percentage change*			*$ million*	*Annual percentage change*		
		2006	*2004*	*2005*	*2006*	*2006*	*2004*	*2005*	*2006*
Largest 5 exporters									
Angola	O	33 795.0	40.5	78.9	45.6	6 908.9	4.9	43.2	35.0
Bangladesh	MF	11 962.6	29.1	14.0	26.9	15 279.4	12.1	15.3	16.6
Yemen	O	6 264.0	8.5	38.5	11.7	4 935.1	1.6	30.2	1.5
Sudan	O	5 478.7	45.6	24.7	21.6	8 844.5	39.2	82.6	20.1
Myanmar	MX	4 863.3	3.5	60.2	18.0	2 155.2	7.8	-12.3	9.0
Middle 15 exporters									
Cambodia	MF	3 990.5	32.1	12.4	26.9	2 996.2	16.2	20.1	20.9
Equatorial Guinea	O	3 804.3	31.5	55.3	29.7	1 098.7	34.8	34.6	-3.3
Zambia	MN	3 770.4	60.7	14.9	108.3	3 074.3	36.7	18.9	20.2
Mozambique	MN	2 381.1	44.1	18.6	33.5	2 869.3	28.8	18.4	19.1
Democratic Republic of the Congo	MN	2 300.2	34.6	18.4	5.0	2 799.5	24.6	14.3	23.3
Chad	O	2 274.7	1 293.3	55.9	16.0	456.4	2.4	17.5	8.4
United Republic of Tanzania	S	1 689.9	17.5	16.1	9.4	4 439.5	17.9	28.3	35.6
Senegal	MX	1 491.6	13.9	11.8	1.4	3 671.0	18.4	23.2	5.0
Liberia	A	1 490.2	15.6	42.0	3.7	6 446.3	8.1	15.7	30.7
Mali	MN	1 476.6	-2.0	16.2	28.7	1 990.3	7.3	24.8	16.8
Mauritania	MN	1 258.7	35.7	27.8	126.2	1 073.3	246.8	0.2	-20.0
Ethiopia	S	1 043.0	19.9	50.7	12.6	5 207.3	7.0	42.5	27.2
Madagascar	MX	1 008.2	-0.8	-13.9	20.6	1 760.3	25.3	2.1	4.4
Guinea	MN	976.2	3.0	22.7	1.1	807.7	2.8	18.8	9.8
Uganda	A	962.2	22.9	24.4	18.4	2 557.3	25.1	19.4	24.5
Smallest 30 exporters									
Lao People's Democratic Republic	MX	876.5	-4.5	52.2	59.5	752.3	-3.4	23.7	20.1
Nepal	MF	759.7	15.8	9.7	-8.4	2 098.9	3.8	-0.6	12.9
Lesotho	MF	671.9	36.9	-7.3	10.3	1 535.3	40.2	2.7	4.5
Malawi	A	668.4	-8.7	8.0	34.9	1 209.2	18.2	25.5	3.8
Haiti	MF	522.6	13.9	20.2	10.4	1 637.3	10.9	11.3	11.7
Burkina Faso	A	482.9	23.2	-2.4	25.7	1 419.1	33.8	10.1	1.9
Togo	MX	359.7	-17.4	-11.9	-0.1	637.4	-1.9	6.2	7.6
Niger	MN	355.7	22.3	24.7	2.3	688.0	19.1	10.3	-6.5
Bhutan	MF	348.2	15.8	41.0	60.3	310.4	22.1	-6.0	8.6
Benin	A	283.1	9.9	-3.4	-1.8	1 011.3	0.2	0.5	12.5
Sierra Leone	MN	216.6	51.1	14.4	36.3	388.9	-5.6	20.3	13.0
Afghanistan	A	179.6	-8.5	25.4	-10.1	4 130.9	10.6	87.2	5.7
Somalia	A	160.8	-41.1	107.7	-11.1	602.2	-28.7	101.0	5.4
Central African Republic	MN	144.3	53.8	15.2	24.0	198.7	59.6	17.2	6.6
Maldives	S	135.6	50.3	-9.2	-12.0	926.5	36.3	16.1	24.4
Rwanda	S	135.4	94.6	27.8	8.1	496.4	8.8	41.7	23.3
Burundi	MN	120.1	25.5	41.6	2.6	414.4	19.4	48.8	61.2
Timor-Leste	O	114.1	84.1	47.1	45.3	104.6	-48.7	-10.5	2.9
Cape Verde	S	110.3	21.9	488.4	23.3	538.2	21.0	2.1	22.8
Solomon Islands	A	91.5	-3.9	8.2	14.3	165.3	21.9	51.6	8.9
Samoa	S	84.9	-1.9	-0.6	0.0	275.0	39.5	13.9	15.1
Guinea-Bissau	A	83.9	15.9	18.2	-11.3	91.4	18.8	27.4	-12.5
Vanuatu	S	44.9	37.1	2.6	18.3	159.7	21.9	16.7	6.8
Djibouti	S	18.9	0.0	4.0	39.7	215.8	1.8	6.1	21.1
Gambia	S	11.5	256.3	-71.8	125.0	259.3	45.6	9.7	-0.1
Eritrea	S	11.2	66.4	-4.2	5.6	552.7	9.1	3.1	13.5
Comoros	S	7.5	16.6	-35.5	-17.4	102.5	24.5	15.4	16.8
Kiribati	A	6.3	38.5	-80.1	77.3	61.4	21.3	29.8	-17.0
Sao Tome and Principe	S	3.9	-46.4	-3.9	13.4	71.1	1.5	20.3	42.7
Tuvalu	A	3.5	-24.9	-37.3	194.4	39.0	-3.5	73.5	34.4

Source: UNCTAD secretariat calculations based on UNCTAD, *Handbook of Statistics 2007* and UNCTAD estimates.

Note: **A**=agricultural exporter, **MF**=manufactures exporter, **MN**=mineral exporter, **MX**=mixed exporters, **O**=oil exporter, **S**=services exporter. Countries have been ranked in decreasing order according to the value of their exports in 2006.

Chart 2. LDCs' merchandise trade balance, 2003–2006
($ million, period averages)



Source: UNCTAD secretariat estimates based on UNCTAD, *Handbook of Statistics 2007*.
Note: Data for Afghanistan, Chad, Liberia, Somalia and Tuvalu have been estimated using mirror data.

Box 2. Trends in trade in services

Data on trade in services are much less reliable and complete than data on merchandise trade. However, the available data indicate that the LDCs' exports are at record levels and the balance of services trade is negative and worsening, as it is for most countries in merchandise trade.

Exports of commercial services from LDCs have been increasing rapidly in recent years. In 2006, they amounted to $14 billion (box table 2). This was equivalent to about 12 per cent of total exports of goods and services for the LDCs as a group. But service exports are particularly important for island LDCs; services are estimated to be equivalent to 67 per cent of their total exports of goods and services.

The service exports of LDCs in 2006 were $2 billion higher than in 2005 and $3.2 billion higher than in 2004. Two thirds of the increase in service export revenue is attributable to increases in commercial services exports from African LDCs. Although service exports are of crucial significance for island LDCs, they have been growing at a lower rate than in the African LDCs.

Tourism is the most important service export of the LDCs. It constituted 33 per cent of the total service export receipts in 2006 for the LDCs as a group. Tourism is even more important for the island LDCs, accounting for 65 per cent of the services exports for this group of countries in 2006.

In spite of the large increase in total service exports, the LDCs remain net service importers. In 2006, LDCs spent an estimated $33 billion to finance their imports of services. Island LDCs export more services than they import, and their service trade surplus reached a record $546 million in 2006. On the other hand, the Asian and the African LDCs experienced a worsening of their service trade deficit between 2004 and 2006, from $1.2 billion to $1.7 billion and from $10.9 billion to $17.7 billion respectively. Payments for service imports absorbed 34 per cent of the total export revenue of the African LDCs from goods and services in 2006. Such payments are particularly high for the landlocked African LDCs, as shown in *Least Developed Countries Report 2004* (UNCTAD, 2004:113).

Box table 2. Export and import of services in LDCs, by country groups, 2003–2006
($ million, per cent)

	Total services ($ million)				Tourism[a] (%)			
	2003	*2004*	*2005*	*2006*	*2003*	*2004*	*2005*	*2006*
Exports					*% of total exports of services*			
LDCs	8 959.0	10 747.3	11 855.2	13 985.0	36.6	38.2	35.3	33.2
African LDCs and Haiti	5 422.9	6 508.0	7 279.7	8 629.1	34.9	34.9	33.0	28.5
Asian LDCs	2 655.6	3 195.2	3 636.1	4 104.2	31.9	35.2	33.7	33.1
Island LDCs	880.5	1 044.1	939.3	1 251.7	61.4	67.8	59.8	65.4
Imports					*% of total imports of services*			
LDCs	17 936.0	22 405.0	27 833.2	32 856.3	9.1	9.9	10.4	11.4
African LDCs and Haiti	13 556.9	17 403.2	22 134.6	26 330.9	8.1	8.8	9.7	11.3
Asian LDCs	3 912.1	4 448.9	5 065.6	5 819.2	10.2	11.8	11.2	10.2
Island LDCs	467.0	552.8	633.0	706.2	28.0	27.5	25.0	25.3
Net exports								
LDCs	-8 977.1	-11 657.7	-15 978.0	-18 871.3				
African LDCs and Haiti	-8 134.0	-10 895.2	-14 854.9	-17 701.8				
Asian LDCs	-1 256.5	-1 253.7	-1 429.5	-1 715.0				
Island LDCs	413.5	491.2	306.4	545.5				

Source: IMF, *Balance of Payments and International Investment Positions Statistics*, CD-ROM, December 2007 and UNCTAD estimates.
Note: No data for Afghanistan, Bhutan, Liberia, Somalia and Tuvalu.
a Includes travel and personal, cultural and recreational activities.

respectively, whilst the average price indices of minerals, ores and metals rose by 26 per cent. Between 2005 and 2006, the average price index of food and agricultural raw materials increased by more than the previous year — 16 per cent and 15 per cent respectively — but the average price index of minerals, ores and metals soared by 60 per cent. The crude petroleum price index increased by 41 per cent and 21 per cent, respectively, during the same years.

Underlying these broad trends, particular commodities of importance to LDCs behaved differently. The largest nominal price increases from 2004 to 2006 occurred for copper, with grade A copper 135 per cent higher in 2006 than in 2004. But strong hikes in iron ore and gold, and to a lesser extent aluminium, also

The prices of tea, tobacco and cotton — key commodities for the LDCs which specialize in exporting agricultural commodities — were lower in 2006 than in 2000.

The prices for most commodities show a high degree of variability which remains a critical problem for the LDCs.

Primary commodities accounted for 77 per cent of the merchandise exports of the LDCs as a group in 2005–2006.

Table 7. Price indices of selected primary commodities of importance to LDCs, 1995–2006

(Index, 2000=100)

	1995	2003	2004	2005	2006	Standard deviation[a]	% change	
						1995–2006	*1995–2006*	*2000–2006*
All food	139	107	121	128	149	..	8	49
Wheat	139	127	115	109	129	23	-8	29
Rice	158	98	121	141	149	57	-6	49
Sugar	162	87	88	121	181	3	11	81
Fish meal	120	148	157	172	282	199	135	182
Coffee, Arabicas	174	74	93	132	132	39	-24	32
Coffee, Robustas	303	88	86	120	162	29	-47	62
Cocoa beans	161	198	174	173	179	13	11	79
Tea	71	78	80	87	97	29	37	-3
Agricultural raw materials	153	112	127	132	152	..	-1	52
Tobacco	88	89	92	93	99	273	12	-1
Cotton	164	107	104	92	97	15	-41	-3
Non-coniferous woods	108	118	136	144	165	21	53	65
Minerals, ores and metals	128	98	137	173	278	..	117	178
Iron ore	97	112	132	226	269	16	176	169
Aluminium	117	92	111	123	166	346	42	66
Copper, grade A	162	98	158	203	371	748	129	271
Copper, wire bars	158	97	153	198	361	68	128	261
Gold	138	130	147	159	217	95	57	117
Memo items:								
Crude petroleum	60	102	134	189	228	15	280	128
Unit value index of manufactured goods exported by developed countries	123	111	121	125	130	..	6	30

Source: UNCTAD secretariat calculations based on UNCTAD, *Commodity Price Bulletin*, various issues.

a Based on annual averages of free market prices.

drove up the average price index of minerals, metals and ores. The price of fish meat also rose by almost 80 per cent over this period. Coffee prices recovered, with Robustas up by 89 per cent and Arabicas up 42 per cent. Sugar prices increased by 106 per cent. But cotton prices were marginally lower in 2006 than in 2004, and tobacco prices were only marginally higher. The prices of tea, tobacco and cotton — key commodities for the LDCs which specialize in exporting agricultural commodities — were lower in 2006 than in 2000 (even in nominal terms). The price of coffee (both Arabicas and Robustas) was higher, but still lower than in 1995.

Despite the trend towards higher commodity prices, the prices for most commodities over the period 1995–2006 showed a high degree of variability, gauged by the standard deviation of annual free market prices (table 7). The highest variability is evident in some of the commodities — namely copper, fish meat, gold, aluminium and tobacco — that are important to those LDCs which experienced the highest price increases in 2005 and 2006. The variability of commodity prices remains a critical problem for the LDCs, affecting macroeconomic stability, and also threatening debt sustainability and sustained growth.

3. The level of commodity dependence

The latest UNCTAD data show that in 2005–2006, primary commodities constituted 77 per cent of the merchandise exports of the LDCs as a group (table

8). Fuel exports accounted for 53 per cent of total LDCs' exports in those years, followed by manufactured goods, which made up 22 per cent, and minerals, ores and metals, which amounted to 11 per cent. A comparison with estimates for 2000–2003 shows a significant shift, with fuel exports rising in relative importance, up from 38 per cent of total LDCs' exports in 2000–2003, and manufactures exports decreasing in relative importance, down from 34 per cent of total LDCs' exports during that period. These shifts resulted mainly from the relative expansion of fuel exports prices (affecting all fuels exporters) and volumes (the latter particularly in Angola, Chad and Equatorial Guinea).

In 2005–2006, fuel exports accounted for 53 per cent of total LDCs' exports, followed by manufactured goods, which made up 22 per cent.

There is, however, a significant difference between the African and the Asian LDCs in terms of the composition of their exports. Fuels constituted 64 per cent of the exports of the African LDCs in 2005–2006, whilst manufactured goods accounted for only 8 per cent. This was almost a mirror image of the exports of the Asian LDCs, where manufactured goods made up 55 per cent, whilst fuels were 28 per cent.

With a 10-year perspective, it is apparent that the Asian LDCs as a group continue to diversify their export structure away from primary commodities into manufactures, whilst the African LDCs are increasingly commodity-dependent, owing to increasing commodity prices and — to a lesser extent — to expanding volumes. During 2005–2006, 75 per cent of LDCs' total exports of manufactured goods were from the Asian LDCs. Bangladesh alone exported an average of $7.3 billion of manufactured goods per year, equivalent to 7.4 per cent of the LDCs' total merchandise exports and 34 per cent of the LDCs' total manufactured exports. Similarly, 83 per cent of LDCs' total exports of fuel were from the African LDCs, and a similar 79 per cent of LDCs' total primary commodity exports *excluding fuels* was also from the African LDCs.

Asian LDCs continue to diversify their export structure away from primary commodities into manufactures, whilst the African LDCs are increasingly commodity-dependent.

In 2003–2005, commodities constituted over 50 per cent of total exports of goods and services for over half of the LDCs for which data are available (24 of 45 countries). Moreover, they accounted for 25 to 50 per cent of total export

Table 8. Composition of merchandise exports and imports in LDCs, African and Asian LDCs, 2005–2006

(Per cent)

	Merchandise exports			Merchandise imports		
	LDCs	*African LDCs*	*Asian LDCs*	*LDCs*	*African LDCs*	*Asian LDCs*
	% of country group exports					
Total all products	100.0	100.0	100.0	100.0	100.0	100.0
All food items	8.6	8.3	8.6	15.6	15.4	15.8
Agricultural raw materials	4.8	4.7	4.7	1.8	1.2	3.0
Mineral, ores and metals	11.0	14.9	2.4	1.1	0.8	1.7
Fuels	52.7	63.7	28.4	13.6	12.9	14.9
Manufactured goods	22.4	8.0	55.3	66.0	67.7	63.4
Chemical products	0.9	0.8	1.1	8.8	8.5	9.4
Machinery and transport equipment	2.6	3.1	1.2	33.0	38.4	22.7
Primary commodities, including fuels	77.0	91.5	44.1	32.2	30.3	35.3
Primary commodities, excluding fuels	24.3	27.9	15.7	18.6	17.4	20.4

Source: UNCTAD secretariat calculations based on UNCTAD, *Handbook of Statistics 2007* and UNCTAD estimates.

Note: Data for Afghanistan, Chad, Liberia, Somalia and Tuvalu have been estimated based on mirror data.
Goods categories according to SITC, rev. 3: All food items (0+1+22+4); agricultural raw materials (2-22-27-28); mineral, ores and metals (27+28+68+667+971); manufactures (5 to 8 less 68 and 667); fuels (3); chemical products (5); machinery and transport equipment (7); primary commodities including fuels (0+1+2+3+4+68+667+971).

earnings in a further nine countries. Commodity export dependence was stronger in the African LDCs, where they constituted over 25 per cent of total exports of goods and services in 23 of the 33 countries for which data are available.

4. Technology content of exports

A more technology-intensive export structure is more dynamic, while exports that use basic technologies tend to have more slowly-growing markets and a smaller scope for technological upgrading.

The Least Developed Countries Report 2007 stresses the importance of technological progress and of catching up for the LDCs' effort to develop their productive capacities (UNCTAD, 2007). The evolution of export patterns also depends on the technological level of the countries. Clearly, an export structure that is more technology-intensive is also more dynamic, and volumes and values tend to grow faster, while exports that use basic technologies tend to have more slowly-growing markets, as well as a smaller scope for technological upgrading (Lall, 2000). The technological content of exports is also likely to affect the current and future economic growth performance. Technology-intensive products offer better prospects for growth, not only because their products tend to be more dynamic in trade, but there are also more opportunities for dynamic productivity gains and externalities. Although basic technologies tend to be associated with more slowly-growing products and markets, they can still experience rapid trade growth, which could lead to high economic growth. This form of growth is not, however, likely to be sustainable in the long term, as it involves limited learning, technological upgrading and spillovers. Once its growth benefits are exhausted, countries should target other products with a higher technological content (Lall, 2000).

Using the taxonomy provided by Lall (2000), manufactured exports are classified according to technological content into the following categories[5]:

(a) Resource-based, including simple and labour-intensive products that are applied to the production of processed agricultural goods and minerals;

(b) Low-technology, including those products that rely on basic and well-diffused technology;

(c) Medium-technology, including those products that use more complex, skill-intensive technologies; and

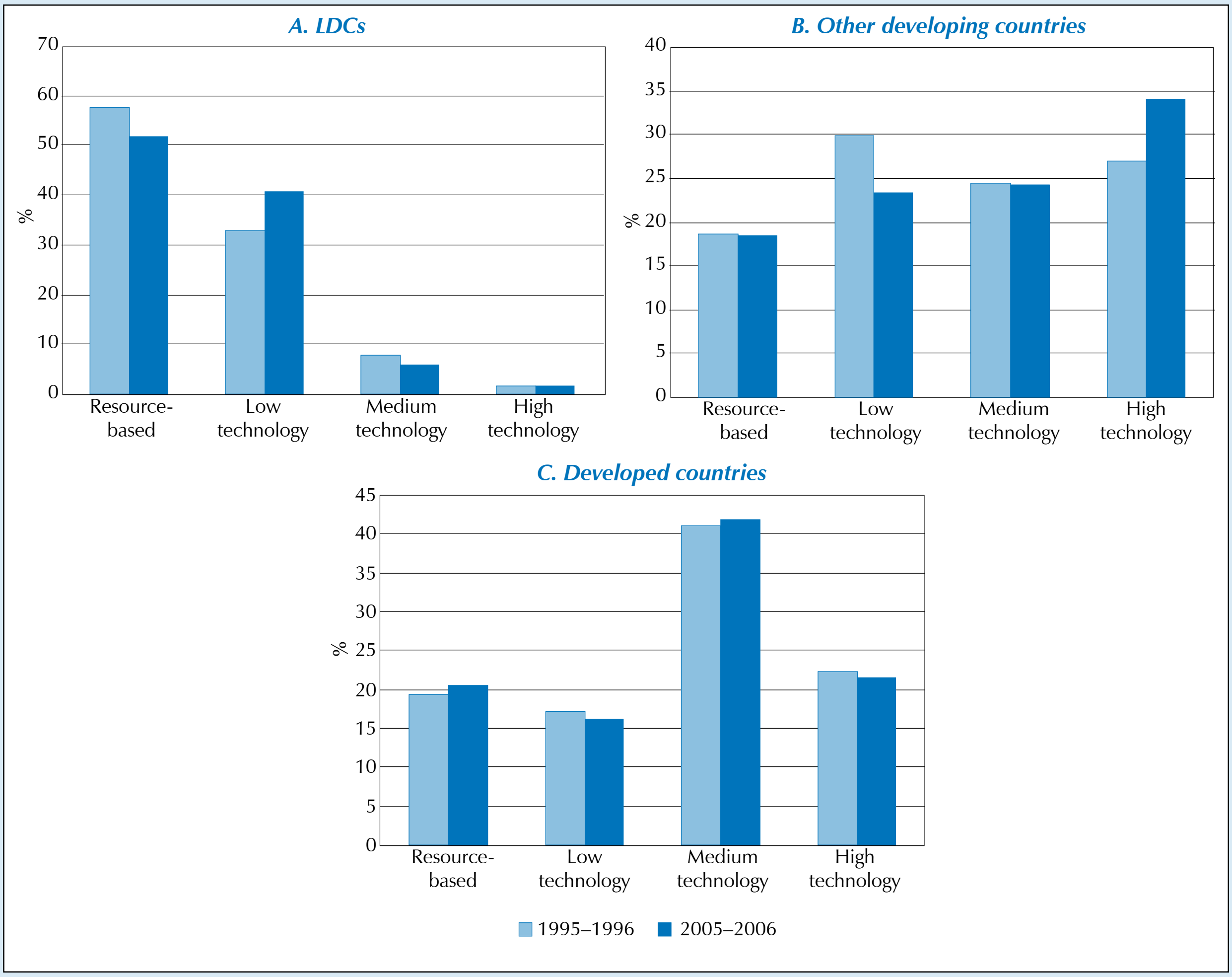
(d) High-technology, including those products that use advanced, research and development-based, fast-changing technologies.

The export structure of the LDCs experienced a small shift away from resource-based into low-technology labour-intensive manufactures.

This classification is used to highlight whether there has been technological upgrading of the export composition for the LDCs, and the extent of such upgrading compared with other developing countries and developed countries during 1995–2006. Data show that the export structure of the LDCs experienced a small shift away from resource-based into low-technology labour-intensive manufactures (chart 3). In 1995–1996, resource-based manufactures accounted for 58 per cent of LDCs' total manufactures exports, against some 33 per cent for the low-technology manufactures. By 2005–2006, the latter category increased to 41 per cent of the manufactures, while the share for resource-based manufactures decreased to 52 per cent. The share of medium- and high-technology manufactures declined slightly.

In the case of the other developing countries as a group, the evidence of a technology-related change taking place is more evident. While the shares of resource-based and medium-technology manufactures remained stable over time at 18 per cent and 24 per cent of total manufactured exports of the group respectively, the share of low-technology manufactures decreased (from 30 per cent in 1995–1996 to 23 per cent in 2005–2006). This development has been to

Chart 3. Distribution of manufactured exports of LDCs, other developing and developed countries according to technological categories, 1995–2006
(Per cent of total manufactured exports of the country groups)



Source: UNCTAD secretariat calculations based on UNCTAD, *Handbook of Statistics 2007* and estimates. No data available for Afghanistan, Chad, Liberia, Somalia and Tuvalu.

Note: The division according to technological categories is drawn from Lall (2000). Data are grouped by 3-digit SITC, revision 3. The manufactured category is larger than in the usual classification as processed foods like sugar, cheese and vegetables are classified as resource-based manufactures (rather than commodities).

the benefit of high-technology exports, whose share increased by 7 per cent during the 11 years considered. On the other hand, the technology-mature developed countries experienced no technology-related change in their composition of manufactured exports over the period.

LDCs as a group have switched their manufactured exports into mineral manufactures and low-technology textile, garment and footwear.

Using a more detailed classification of technology-based manufactured exports, the LDCs as a group have switched their manufacture exports into resource-based mineral manufactures and low-technology textile, garment and footwear. Together, these two categories accounted for 78 per cent of the LDCs' total manufactured exports in 2005–2006, up from 69 per cent in 1995–1996. These averages mask the large difference that exists between African and Asian LDCs. Table 9 shows that the former have increased their technological specialization in the exports of resource-based minerals, driven by the buoyant international prices, while the latter have increased their specialization in low-technology manufactures, namely textiles, garments and footwear. Among the LDC sub-groups, the island LDCs have experienced the most upgrading of their manufactured exports. They have been the only group to experience a strong increase in their share of medium-technology manufactures (from 15 per cent of total manufactured exports in

Table 9. Distribution of manufactured exports according to technological categories for LDCs and country groups, 1995–2006

(Per cent of total manufactured exports)

	LDCs		African LDCs		Asian LDCs		Island LDCs	
	1995–1996	*2005–2006*	*1995–1996*	*2005–2006*	*1995–1996*	*2005–2006*	*1995–1996*	*2005–2006*
Resource-based manufactures: Agro-based	19.1	11.1	16.2	8.7	19.2	13.2	62.6	36.8
Resource-based manufactures: Mineral	38.7	40.7	65.6	70.3	9.0	5.6	7.9	24.4
Low technology manufactures: Textile, garment and footwear	29.9	37.2	6.6	8.4	59.4	73.0	7.4	3.0
Low technology manufactures: Other products	2.9	3.4	2.3	4.4	3.6	2.4	4.3	2.5
Medium technology manufactures: Automotive	1.8	1.0	2.4	1.1	1.3	0.8	0.5	3.1
Medium technology manufactures: Process	3.8	2.6	3.0	2.7	4.6	2.4	7.0	5.4
Medium technology manufactures: Engineering	2.2	2.3	2.3	2.8	1.7	1.4	7.4	16.5
High technology manufactures: Electronic and electrical	0.7	1.0	0.8	1.1	0.4	0.8	2.1	2.8
High technology manufactures: Other	0.9	0.6	0.9	0.7	0.8	0.4	0.8	5.4

Source: UNCTAD secretariat calculations based on UNCTAD, *Handbook of Statistics 2007* and estimates.

Note: No data for Afghanistan, Chad, Liberia, Somalia and Tuvalu.
The classification by technological categories is drawn from Lall (2000). Data are grouped by 3-digits SITC, revision 3.
The manufactured category is larger than in the usual classification as processed foods like sugar, cheese and vegetables are classified as resource-based manufactures (rather than commodities).

1995–1996 to 25 per cent in 2005–2006). But this is mainly attributable to one investment project in one country — exports of engineering manufactures from Samoa.

In 2005–2006, manufactured goods constituted 66 per cent of the merchandise imports of the LDCs. But both food and fuel are also important components of the LDCs' import bill.

Although export diversification in some LDCs is welcome, there is no room for complacency regarding the trade prospects of those LDCs which have managed to reduce commodity dependence and increase manufactures exports. Given the high degree of competition in global markets for low-technology, low-skill manufactures, these countries remain vulnerable. The recent erratic growth experience of manufactures exporters such as Lesotho, Haiti and Nepal shows that export upgrading is critical to sustained competitiveness.

5. Composition of merchandise imports

In 2005–2006, manufactured goods constituted 66 per cent of the merchandise imports of the LDCs. But both food and fuels are also important components of the LDCs' import bill, accounting for 16 per cent and 14 per cent of total merchandise imports respectively (table 8).

Because they are net food importers, most LDCs are particularly vulnerable to swings in the prices of food items and to the financial terms attached to food imports.

The position of food imports in LDCs' trade structure bears close attention, given its potential importance for food security and poverty. Because they are net food importers, most LDCs are particularly vulnerable to swings in the prices of food items and to the financial terms attached to food imports (i.e. their concessionality level). In 2005–2006, the food import bill of the LDCs as a group reached $14.6 billion, which was equivalent to 4.4 per cent of their GDP. This was $6.1 billion higher than in 2000–2002, an increase equivalent to some 2 per cent of their GDP in 2005–2006. During 2005–2006, the LDCs' net food trade deficit was equivalent to $7.1 billion. African, Asian and island LDCs, considered as groups, were all net food importers. But two thirds of the total food trade deficit was attributable to the African LDCs. The majority (36) of LDCs were net food importers and net food imports increased in 40 LDCs between 2004 and 2006 (table 10).

The high level of food import dependence is a major feature of the vulnerability of LDCs and this issue, including the poverty impact of the rising prices in 2007 and 2008, will be examined in more detail in the next chapter.

Table 10. Food imports and exports in LDCs, by country, 2000–2006

($ million, per cent)

	Food exports			Food imports						Food balance	
	$ million			*$ million*			*% of total imports*			*$ million*	
	2000	*2005*	*2006*	*2000*	*2005*	*2006*	*2000*	*2005*	*2006*	*2000*	*2006*
Net food importers											
Afghanistan	52.7	89.0	85.7	294.9	827.6	965.4	37.0	21.2	23.4	-242.2	-879.7
Angola	42.7	24.6	28.2	825.8	941.2	1 305.8	27.2	18.4	18.9	-783.1	-1 277.6
Bangladesh	418.2	636.5	807.2	1 254.0	1 712.4	2 185.2	16.5	13.1	14.3	-835.9	-1 378.0
Benin	37.8	69.6	58.0	119.6	268.1	281.4	21.9	29.8	27.8	-81.9	-223.5
Burkina Faso	34.5	89.4	145.8	91.0	208.7	181.9	12.6	15.0	12.8	-56.5	-36.0
Cambodia	13.3	146.2	146.0	136.8	225.8	237.7	9.5	9.1	7.9	-123.4	-91.6
Cape Verde	2.0	12.4	15.6	73.6	133.7	157.0	31.0	30.5	29.2	-71.6	-141.4
Central African Republic	8.4	0.9	1.6	20.7	31.9	39.8	29.3	17.1	20.0	-12.2	-38.2
Chad	4.2	0.2	0.2	22.9	55.4	73.3	16.8	13.2	16.1	-18.8	-73.1
Comoros	6.1	7.3	6.1	15.7	30.9	33.9	21.9	35.2	33.0	-9.6	-27.8
Dem. Rep. of the Congo	25.9	34.4	29.3	192.2	601.3	729.1	27.6	26.5	26.0	-166.3	-699.8
Djibouti	4.2	5.5	8.2	38.2	40.0	46.7	24.5	22.4	21.6	-34.0	-38.5
Equatorial Guinea	36.4	1.0	1.2	44.1	170.4	169.0	9.8	15.0	15.4	-7.7	-167.8
Eritrea	12.7	2.8	3.1	122.6	162.7	132.6	37.4	33.4	24.0	-109.9	-129.6
Gambia	13.1	4.0	9.3	65.4	97.9	80.9	34.5	37.7	31.2	-52.3	-71.6
Guinea	13.1	69.8	72.5	148.0	159.5	136.2	24.2	21.7	16.9	-135.0	-63.7
Haiti	31.1	23.1	24.0	350.2	394.7	428.9	33.7	26.9	26.2	-319.2	-404.9
Kiribati	10.2	2.9	4.6	14.4	27.0	20.7	36.7	36.4	33.7	-4.2	-16.2
Lao People's Dem. Republic	25.7	33.3	37.6	74.5	87.5	93.4	13.9	14.0	12.4	-48.7	-55.7
Lesotho	16.7	2.5	2.3	108.0	358.2	362.9	17.6	24.4	23.6	-91.4	-360.6
Liberia	3.8	7.5	7.9	77.6	161.9	172.6	1.4	3.3	2.7	-73.8	-164.7
Maldives	40.9	102.9	133.6	91.8	115.9	147.9	23.6	15.6	16.0	-50.9	-14.3
Mali	8.2	55.4	103.1	121.9	219.5	275.8	15.1	12.9	13.9	-113.7	-172.7
Mozambique	156.2	208.5	376.0	162.4	347.4	398.7	14.0	14.4	13.9	-6.2	-22.6
Nepal	70.6	162.1	133.5	184.7	251.6	312.0	11.9	13.5	14.9	-114.2	-178.5
Niger	127.7	67.1	87.1	135.1	251.6	224.8	35.1	34.2	32.7	-7.4	-137.7
Samoa	4.5	17.5	18.5	25.9	43.5	51.0	24.4	18.2	18.6	-21.4	-32.6
Sao Tome and Principe	2.7	3.2	3.7	9.2	19.2	21.8	30.8	38.5	30.6	-6.5	-18.1
Senegal	363.3	423.9	495.4	361.9	984.2	858.4	23.3	28.1	23.4	1.4	-363.0
Sierra Leone	11.9	14.2	16.5	33.6	53.8	80.3	22.5	15.6	20.6	-21.7	-63.8
Somalia	100.5	128.7	97.9	153.4	257.2	303.1	47.3	45.0	50.3	-52.9	-205.2
Sudan	272.9	299.2	298.6	360.0	921.7	1 053.0	21.7	12.5	11.9	-87.1	-754.3
Timor-Leste	0.0	8.0	9.0	24.5	17.9	19.2	19.5	17.6	18.4	-24.5	-10.2
Togo	37.5	77.2	79.7	59.5	92.0	99.7	18.4	15.5	15.6	-21.9	-20.0
Tuvalu	0.2	0.0	0.0	2.4	3.8	3.1	34.2	13.0	8.0	-2.2	-3.1
Yemen	87.5	247.2	273.5	829.1	1 154.5	1 044.1	35.6	23.7	21.2	-741.6	-770.6
Net food exporters											
Bhutan	13.7	32.8	79.3	31.4	29.6	26.1	17.9	10.4	8.4	-17.6	53.2
Burundi	36.8	52.8	53.7	34.5	16.6	31.0	22.9	6.5	7.5	2.3	22.6
Ethiopia	320.7	680.7	735.8	88.1	435.9	443.9	7.0	10.6	8.5	232.6	291.9
Guinea-Bissau	31.7	76.6	67.9	12.1	25.8	24.6	24.7	24.7	26.9	19.5	43.3
Madagascar	273.4	244.4	330.0	130.6	259.0	255.4	13.2	15.4	14.5	142.8	74.5
Malawi	331.1	393.9	551.3	52.3	212.5	183.2	9.8	18.2	15.1	278.8	368.2
Mauritania	71.2	137.7	356.4	66.1	137.2	268.6	18.7	10.2	25.0	5.1	87.7
Myanmar	330.1	746.9	935.4	278.5	274.9	301.6	11.6	13.9	14.0	51.6	633.8
Rwanda	29.7	74.8	79.6	44.0	42.8	61.6	20.8	10.6	12.4	-14.3	18.0
Solomon Islands	21.7	20.3	17.2	12.8	17.9	18.6	13.0	11.8	11.3	9.0	-1.4
Uganda	242.5	473.4	523.2	134.1	308.1	348.0	14.1	15.0	13.6	108.4	175.2
United Republic of Tanzania	359.5	574.0	585.4	231.6	331.7	542.5	14.6	10.1	12.2	127.9	42.9
Vanuatu	17.9	23.3	34.2	20.8	18.0	21.4	23.9	12.0	13.4	-2.8	12.8
Zambia	83.6	239.4	226.1	71.8	159.0	233.5	8.1	6.2	7.6	11.9	-7.3
LDCs	**4 261.0**	**6 849.0**	**8 196.0**	**7 853.9**	**13 699.6**	**15 487.3**	**17.3**	**15.9**	**15.4**	**-3 592.9**	**-7 291.3**

Source: UNCTAD secretariat calculations based on United Nations/DESA Statistics Division and UNCTAD estimates.

Note: Countries have been classified according to a three-year (2004–2006) average of food balance. For SITC codes for food, see note to table 8.

6. The continuing marginalization of LDCs in world trade

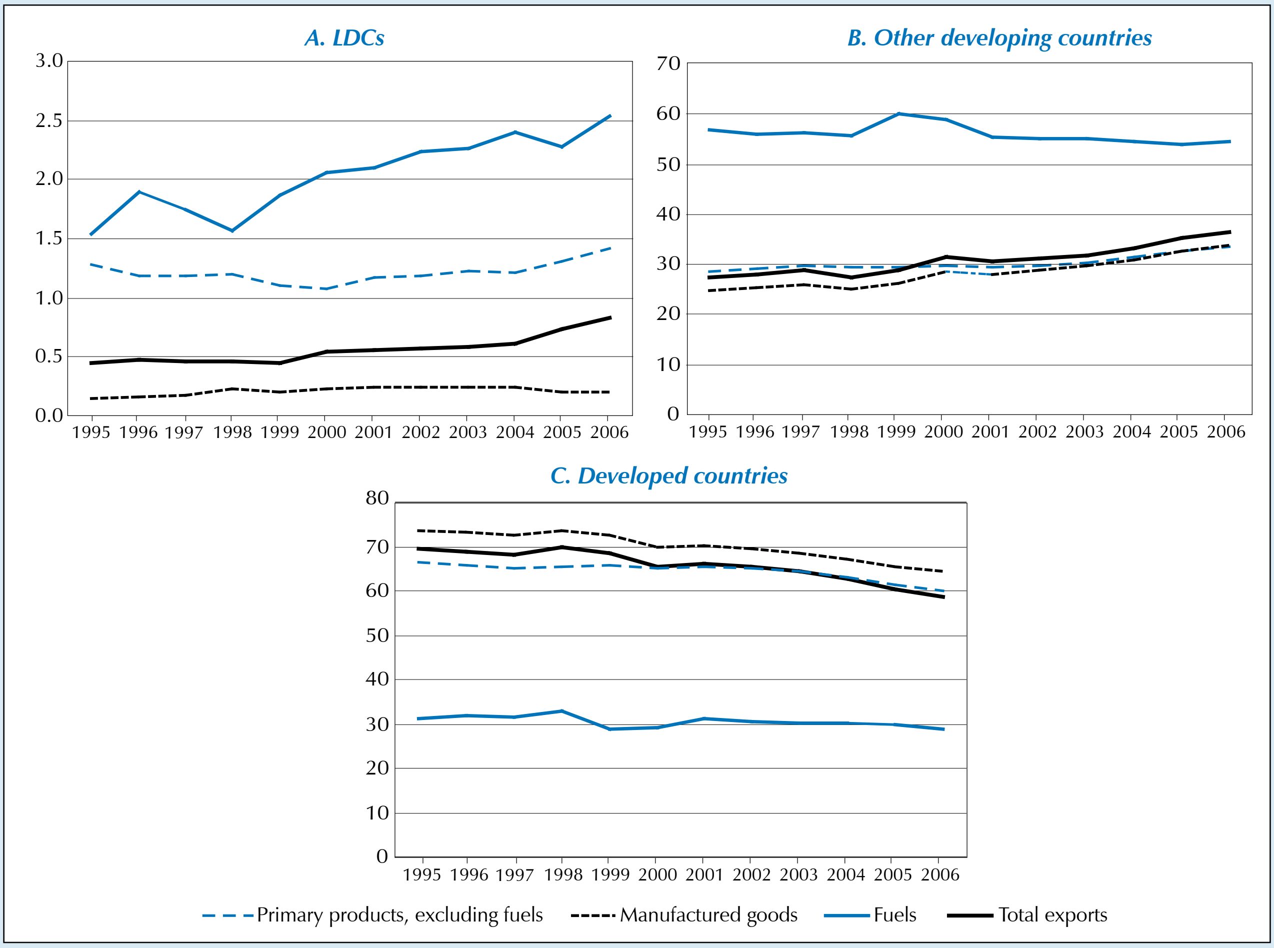
The net result of all the recent trends identified previously is that the LDCs are in a situation where they are highly integrated with the global economy through trade, but at the same time, their marginalization, as measured by their level of participation in world trade, remains significant.

In 2006, LDCs generated only 0.8 per cent of world merchandise exports, but excluding fuels, this share was only 0.5 per cent.

Total merchandise trade (including both exports and imports) of the LDCs as a group amounted to 56 per cent of their GDP in 2006. This was up from 44 per cent in 2000. But the share of the LDCs in world merchandise trade continued to remain tiny despite the recent export boom for the group as a whole. In 2006, LDCs generated only 0.8 per cent of world merchandise exports. Although this represented an important increase with respect to the 0.5 per cent of world merchandise exports in 2000, it was mainly driven by fuel exports. Excluding fuels, the share of LDCs' exports in world exports only grew from 0.4 per cent in 2000 to 0.5 per cent in 2006.

Chart 4 shows the evolution of the share in world merchandise exports, by sectors, of the LDCs, the other developing countries (ODCs) and developed countries. Over the period considered, the LDCs increased their world share in fuels, from 2 per cent in 2000 to 2.5 per cent in 2006. Their world share of

Chart 4. Shares in world merchandise exports of LDCs, ODCs and developed countries, total and by sectors, 1995–2006
(Per cent)



Source: UNCTAD secretariat estimates based on UNCTAD, *Handbook of Statistics 2007*. No data available for Afghanistan, Chad, Liberia, Somalia and Tuvalu.

Note: The world shares do not add up to 100 as the economies in transition are not shown in a separate chart. For the SITC classification by products, refer to table 8.

primary products excluding fuels also increased over time, from 1.1 per cent in 2000 to 1.4 per cent in 2006. On the other hand, in spite of the rapid increase in manufactured exports of the Asian LDCs, the LDCs' total share in world manufactured exports has stagnated over time at around 0.2 per cent. This is a major area where most LDCs are lagging behind other developing countries. The latter together accounted for 34 per cent of world manufactured exports, up from 27 per cent in 2000.

LDCs' total share in world manufactured exports has stagnated over time at around 0.2 per cent.

E. Trends in external finance[6]

The strong economic performance of the LDCs in recent years has been underpinned not only by record exports, but also by higher levels of long-term capital inflows than during the late 1990s and during the early part of the present decade. These capital inflows include both private capital inflows and official flows, mostly ODA. But whereas exports continued to surge between 2004 and 2006, the increase in long-term capital inflows slowed significantly during this period. International reserves have also increased significantly, reducing the availability of external resources for development and poverty reduction. The slowdown in the increase in long-term capital inflows also occurred along with increasing profit remittances on FDI and interest payment on long-term debt. As a consequence, aggregate net transfers to the LDCs actually declined over the period 2004–2006.[7] This trend has been partially offset by rising workers' remittances to the LDCs, though the developmental impact of remittances versus other type of inflows remains unclear.

Whereas exports continued to surge between 2004 and 2006, the increase in long-term capital inflows slowed significantly during this period.

1. Overall picture

Excluding debt forgiveness grants, aggregate net foreign resource flows increased during the period 2000–2003 from an annual average of $17.3 billion to $27 billion in 2004 (table 11). This was more than double the average level of long-term capital inflows of the second half of the 1990s. But the strong upward trend was broken in 2004 and these flows only increased marginally in 2005 and reached $28.9 billion in 2006.

As in earlier years, the increase in aggregate net resource flows to the LDCs from 2004 to 2006 was mainly attributable to grants disbursements, which increased by $2.1 billion over this period (excluding debt forgiveness and technical cooperation), and also FDI inflows, which increased by about $3 billion. But as the more detailed analysis of ODA flows and FDI later in this section shows, both of these types of capital inflows are highly concentrated geographically. Moreover, ODA inflows are not oriented to building up the productive base of the economy which is essential for future growth sustainability.

The increase in aggregate net resource flows to the LDCs from 2004 to 2006 was mainly attributable to grants disbursements and FDI inflows.

Official net resource flows continue to be the main source of long-term capital inflows to the LDCs. Excluding debt forgiveness grants, they accounted for 61 per cent of aggregate net resource flows to the LDCs in 2006, up from an average of 57 per cent during 2000–2003. Grants (excluding technical cooperation and debt forgiveness) constituted 50 per cent of aggregate net resource flows to LDCs in 2006. Portfolio equity flows remained of marginal significance and the main source of debt flows was from multilateral creditors, whose net loans to the LDCs were equivalent to $3.7 billion in 2006, 13 per cent of aggregate net resource flows.

Table 11. Long-term net capital flows and transfers to LDCs, 1995–2006
($ million)

	1995–1999	2000–2003	2004	2005	2006
A. Aggregate net foreign resource flows	**13 788**	**20 087**	**30 850**	**29 886**	**59 364**
A'. Aggregate net foreign resource flows, excluding debt forgiveness grants[a]	13 788	17 321	27 087	27 413	28 864
Official net resource flows	9 947	12 692	20 057	20 075	48 131
Official net resource flows, excluding debt forgiveness grants[a]	9 947	9 926	16 295	17 602	17 630
Grants, excluding technical cooperation	7 586	10 018	16 270	16 421	45 134
Official debt flows	2 361	2 675	3 787	3 654	2 997
Bilateral	-208	-545	-191	-590	-668
Multilateral	2 569	3 220	3 978	4 244	3 666
Private net resource flows	3 842	7 395	10 793	9 811	11 233
Foreign direct investment	3 744	7 040	9 331	7 783	12 334
Portfolio equity flows	-6	16	18	55	42
Private debt flows	104	339	1 444	1 973	-1 143
Private, non-guaranteed	-11	123	480	252	467
Private, guaranteed	115	216	964	1 720	-1 610
B. Aggregate net transfers (A–C–D)	**11 260**	**15 328**	**22 960**	**18 650**	**45 171**
B'. Aggregate net transfers, excluding debt forgiveness grants[a] (A'–C–D)	11 260	12 561	19 198	16 177	14 671
C. Interest payments on long-term debt	1 131	1 058	1 276	1 399	1 914
D. Profit remittances on FDI	1 398	3 701	6 613	9 838	12 279
Memo item:					
International reserves[b]	-696	-2 882	-5 517	-2 976	-10 115
International reserves as % GDP	7.1	9.9	11.9	11.1	12.4

Source: UNCTAD secretariat estimates based on World Bank, *Global Development Finance*, online, April 2008.

Note: No data available for Afghanistan, Kiribati, Timor-Leste and Tuvalu.
a From 2000 onwards. b Year-to-year change. A negative figure implies an increase in international reserves.

Aggregate net transfers to the LDCs declined by almost one quarter between 2004 and 2006.

Profit remittances on FDI soared and exceeded net FDI inflows in both 2005 and 2006.

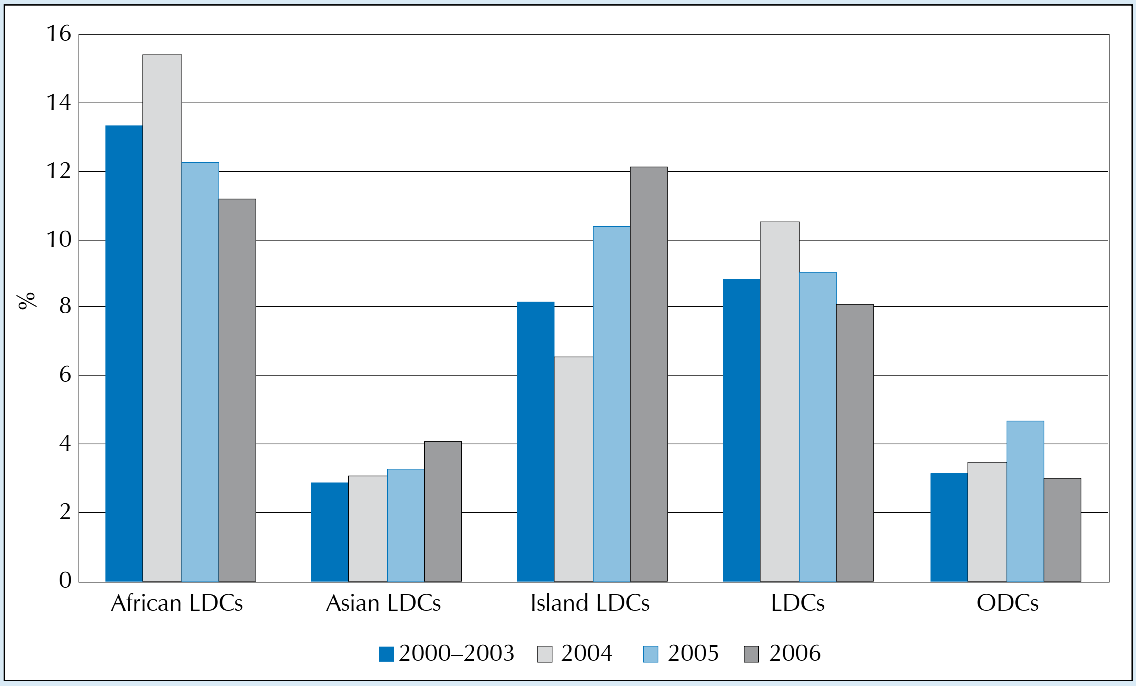
An important development in 2006 was that net debt flows from private creditors, which had always been small for the LDCs as a group, turned negative, and the negative net debt flows from bilateral creditors increased. Net debt flows to LDCs from both official and private creditors actually fell by $3.4 billion over the period 2004–2006. Excluding debt forgiveness grants, the slowdown in the increase in aggregate net resource flows to LDCs since 2004 was mainly attributable to the smaller increase in ODA grants to LDCs, as well as the already mentioned decline in net debt flows.

The reliance of LDCs on external finance as measured by the ratio of aggregate net resource flows to GDP has declined somewhat in recent years (chart 5). Excluding debt forgiveness grants, this ratio was 8 per cent in 2006, down from 11 per cent in 2004. But the reliance on external finance remains much higher than in other developing countries, for which the average ratio was 3 per cent in 2006. A regional breakdown shows that African and island LDCs were particularly reliant on external finance. Aggregate net resource flows were equivalent to 11 per cent of GDP in African LDCs and 12 per cent of GDP in island LDCs in 2006.

A very significant emerging trend during the period 2004–2006 is the fall in aggregate net transfers to the LDCs. Excluding debt forgiveness grants, such transfers declined from $19.2 billion in 2004 to $14.7 billion in 2006 — this is a fall of almost one quarter. Given the high level of dependence of LDCs on external finance, this trend does not bode well for the future if it continues.

The fall in aggregate net transfers is due to a combination of tendencies. However, it is striking that profit remittances on FDI have soared. They almost doubled between 2004 and 2006, from $6.6 billion to $12.4 billion. Interest payments on long-term debt also rose. The increase in interest payments on long-term debt and profit remittances is such that for the LDCs group as a whole, the

Chart 5. Aggregate net foreign resource flows to LDCs, by country groups, and ODCs, 2000–2006
(Per cent of GDP)



Source: UNCTAD secretariat calculations based on World Bank, *Global Development Finance*, online, April 2008; and United Nations/DESA Statistics Division for GDP.

sum of these outflows was almost equivalent to ODA grants (excluding technical cooperation and debt forgiveness) to LDCs in 2006. Moreover, profit remittances on FDI actually exceeded net FDI inflows in 2005 and were more or less equal to them in 2006.

The rise in profit remittances was apparent between 2000 and 2004, but did not lead to declining aggregate net transfers to the LDCs because long-term capital inflows were rising sharply over this period, driven by increased aid inflows. However, with a pause in the sharp upswing of capital inflows, and also the rise in interest payments in spite of debt relief, aggregate net transfers have fallen significantly.

International reserves increased from from $15 billion in 2000 to a record level of $43 billion in 2006.

Finally, an important emerging trend in the LDCs is that international reserves have increased markedly (table 11). According to available data, international reserves reached a record level of $43 billion in 2006, up from $15 billion in 2000. International reserves increased by 17 per cent per annum between 2000 and 2004, and at an accelerated rate of 20 per cent per annum from 2004 to 2006. In 2006, the international reserves of the LDCs as a group were equivalent to 12.4 per cent of GDP, up from an annual average of 7.1 per cent during 1995–1999.

The increase in such reserves in the LDCs is associated with macro-economic advice, conditionality and aid volatility.

These trends mirror those in other developing countries. However, whilst the increase in international reserves in other developing countries has been prompted by the objective of avoiding the financial crises which were such a significant feature of the 1990s, the increase in such reserves in the LDCs is more associated with macro-economic advice and conditionality and as a buffer against aid volatility (see chapter 3 of this Report). The right level of international reserves for the LDCs, which face volatility of official flows more than volatility of private flows, is a complex issue. However, the build-up in international reserves means that the availability of external financial resources for promoting economic development and poverty reduction has been less than it could have been. The increase in international reserves has thus been another factor attenuating the developmental impact of increased capital inflows in recent years.

Net ODA disbursements to LDCs increased to a record level of $28 billion in 2006, but the recent nominal doubling of aid is actually reversing the 1990s downward trend.

2. Trends in aid flows

It is possible to get a more detailed picture of trends in official development assistance from the data of the Organisation for Economic Co-operation and Development (OECD)/Development Assistance Committee (DAC). These show that net ODA disbursements to the LDCs from all donors reporting to OECD/DAC increased to a record level of $28.1 billion in 2006 (table 12).[8] This constituted 26.7 per cent of total ODA disbursed to all developing countries by all donors, up from 25.3 per cent in 2000. In nominal terms, aid inflows to the LDCs are more than double the level in 2000.

In real terms, net ODA disbursements to the LDCs have been increasing less dramatically. Real disbursements actually reached a plateau in 2003 after a strong surge from 1999 to 2003, and only increased again in 2006. Excluding debt relief, net ODA disbursements have been increasing steadily since 1999. However, the rate of increase has been slower from 2003 onward (chart 6).

In 2006, real net ODA disbursements to the LDCs per capita were 17 per cent lower than they had been in 1990.

Taking a long-term view which goes back to 1990, it is clear that the recent nominal doubling of aid to the LDCs is actually reversing the 1990s downward trend in aid. In real terms, aid disbursements to the LDCs are now higher than they were in 1990. But in real per capita terms, they are still less than the 1990 level. Indeed, in 2006, real net ODA disbursements to the LDCs per capita stood at $35, which was 17 per cent lower than it had been in 1990.

(a) Geographical distribution of aid amongst the LDCs

Aid constituted 9.3 per cent of GDP in the African LDCs compared with 4.8 per cent of GDP in the Asian LDCs (or 2.7 excluding Afghanistan).

A regional comparison shows that, in 2006, 74 per cent of aid inflows went to the African LDCs, which was roughly the same proportion as in 2000. Indicators of the economic importance of aid show that the African LDCs are much more aid-dependent than the Asian LDCs. In 2006, aid constituted 9.3 per cent of GDP in African LDCs, compared with 4.8 per cent of GDP in the Asian LDCs (or 2.7 per cent if Afghanistan is excluded). Moreover, in 2006, aid inflows per capita to the African LDCs were double those to the Asian LDCs ($43 versus $20). But it is also clear that the island LDCs as a group are the most aid dependent of all LDCs. Although aid flowing to the island LDCs has been decreasing over time, in 2006 it still was equivalent to $181.9 per capita and 17 per cent of GDP.

Within these overall regional patterns, there are significant differences amongst the LDCs in terms of ODA trends. In 2006, 17 LDCs experienced a decrease in

Table 12. Net ODA disbursements to LDCs from all donors[a], by country groups, 2000–2006

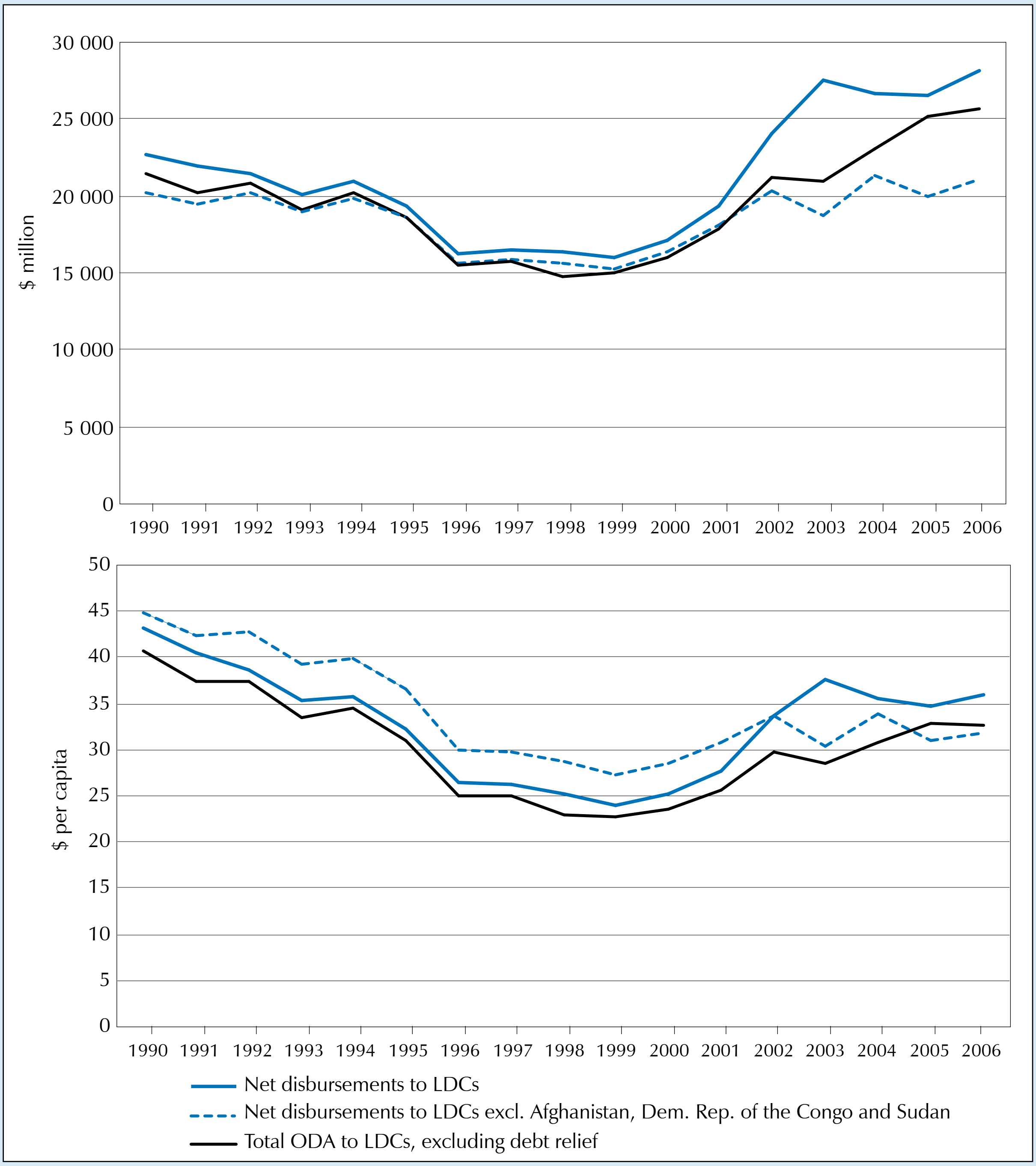
($ million, per cent, $ per capita)

	$ million			% of GDP			$ per capita		
	2000	*2005*	*2006*	*2000*	*2005*	*2006*	*2000*	*2005*	*2006*
LDCs	**12 621.4**	**25 882.0**	**28 181.3**	**7.2**	**8.5**	**7.9**	**18.6**	**33.8**	**35.9**
Excluding Afghanistan	12 485.4	23 129.9	25 181.5	7.1	7.8	7.2	19.0	31.2	33.2
Excluding Afghanistan, Dem. Rep. of the Congo and Sudan	12 087.9	19 470.3	21 067.6	7.6	7.4	6.9	21.0	30.1	31.9
African LDCs	9 061.7	18 651.7	20 915.7	9.8	10.2	9.3	22.2	39.8	43.5
Asian LDCs	2 790.0	5 920.2	6 155.0	3.9	5.1	4.8	10.4	20.1	20.5
Excluding Afghanistan	2 654.0	3 168.1	3 155.3	3.5	2.8	2.7	10.8	11.7	11.5
Island LDCs	561.3	799.1	709.3	21.5	21.2	17.0	172.3	210.6	181.9

Source: UNCTAD secretariat calculations based on OECD/DAC, online data, March 2008, and United Nations/DESA Statistics Division for GDP and population.

a This includes multilateral and bilateral aid from OECD/DAC member countries and non-DAC members reporting to OECD/DAC (see endnote 8).

Chart 6. Real net ODA disbursements to LDCs including and excluding debt relief, 1990–2006
(Million of 2006 dollars, $ per capita)



Source: UNCTAD secretariat calculations based on OECD/DAC online, April 2008; and United Nations/DESA Statistics Division for population.

real aid disbursements, while for 10 LDCs aid disbursements increased by 20 per cent or above. Of the 17 LDCs receiving less aid, 15 had increasing aid in the period 2000–2004. This is indicative of the instability in aid disbursements which Governments have to cope with.

Three countries accounted for one fourth of total net ODA disbursements to the LDCs in 2006.

One important feature of the geographical distribution of aid is the high level of concentration in ODA inflows for a few countries. In 2006, Afghanistan, the Democratic Republic of the Congo and Sudan accounted for one fourth of total net ODA disbursements going to the LDCs, while the Democratic Republic of the Congo and Sudan accounted for one fourth of total nominal ODA going to the African LDCs.

ODA disbursements flowed into post-conflict and post-disaster countries at a faster pace than in the other LDCs.

A second important feature is that from 2000 to 2006, real ODA disbursements flowed into post-conflict and post-disaster countries at a faster pace than in the other LDCs. ODA inflows to Afghanistan, Burundi, the Democratic Republic of the Congo, Ethiopia, Haiti, Liberia, Maldives, Somalia and Sudan, most of whom are in this category, increased at an average annual growth rate of 10 per cent or higher during this period. These nine countries, which in 2000 were receiving only 13.6 per cent of total ODA disbursements, received 38.1 per cent in 2006. During the same period, 2000–2006, ODA inflows into 19 LDCs were declining. In 2000, these countries (Angola, Bangladesh, Cambodia, Comoros, Eritrea, Gambia, Guinea, Guinea-Bissau, Kiribati, Lao People's Democratic Republic, Mauritania, Mozambique, Nepal, Samoa, Sao Tome and Principe, Timor-Leste, Togo, Vanuatu and Yemen) were receiving 37.4 per cent of total disbursements; by 2006, they only received 20.4 per cent (table 13).

ODA disbursements seem to be inversely correlated with export performance negating synergies between aid and trade in supporting development.

A third important feature of the geographical distribution of aid is that ODA disbursements seem to be inversely correlated with export performance. On the one hand, net ODA inflows to oil-exporting and manufactures-exporting LDCs, which are achieving stronger export growth, are falling. On the other hand, aid per capita to the LDCs which specialize in exporting agricultural commodities, where export growth has been sluggish, increased in real terms, from an annual average of $36 per capita in 2000 to $67 per capita in 2006. Aid as a share of GDP also rose for this group of countries over the same dates, from 13.5 per cent to 21.4 per cent. This has certainly helped the LDCs which specialize in agricultural exports to sustain their growth in spite of weak trade performance. But the fact that decisions on aid allocation, may be responding to the trade performance of countries suggests that LDCs' development partners are not facilitating mutual synergies between aid and trade in supporting development in the LDCs. In effect, a good export performance is associated with falling aid receipts rather than aid and trade working together to reinforce development.

A large number of the very high-growth LDCs in 2006 received significant aid inflows in the previous year.

Finally, it is worth noting that a large number of the very high-growth LDCs in 2006 received significant aid inflows in the previous year. Of the 19 very high-growth LDCs in 2006, aid constituted over 10 per cent of GDP in 14 of them in 2005. The only exceptions to this pattern were two oil exporters (Angola and Sudan), two successful Asian manufactures exporters (Bangladesh and Cambodia) and Myanmar.

(b) Type and purpose of aid

The proportion of net ODA disbursements provided in the form of grants rose to 87 per cent in 2006.

The type and purpose of aid has a strong influence on the impact of aid inflows on long-term growth. Table 14 shows a breakdown of ODA disbursements into grants and loans, and also indicates the allocation of grants between technical cooperation, debt relief, humanitarian aid and development food aid. In interpreting the table, it is important to note that the bulk of debt forgiveness grants in 2006 was due to the writing-off of ODA principal, in effect converting past ODA loans into grants. In order to avoid double counting, such ODA principal forgiveness is included as an offsetting entry for debt relief under net ODA loans. It is not new aid and, as is standard practice, is thus not included in the analysis of the composition of aid below. The remainder of debt forgiveness grants includes ODA interest forgiven and also the use of ODA for other debt forgiveness. It is this sum which is counted here as new aid and is used in estimating the share of aid going to debt relief.

With this in view, four important features are clear from the table:

(a) The proportion of net ODA disbursements provided in the form of grants continues to rise. It constituted 87 per cent of net ODA disbursements in 2006, up from an annual average of 80 per cent during 2000–2004;

Table 13. Real net ODA disbursements to LDCs, by country and country groups, 2000–2006

	Average annual growth rates			$ per capita			% of real GDP		
	2000–2004	*2004–2005*	*2005–2006*	*2000*	*2005*	*2006*	*2000*	*2005*	*2006*
Countries with real GDP growth > 6% in 2006									
Maldives	0.5	178.5	-50.8	83.7	260.6	126.2	3.9	10.3	4.1
Angola	27.6	-62.8	-62.1	29.3	27.1	10.0	2.0	1.3	0.4
Mauritania	-11.2	6.5	-6.4	109.9	66.2	60.3	18.4	10.5	8.6
Sudan	41.3	79.1	8.9	9.0	49.7	52.9	1.7	7.4	7.1
Afghanistan	82.1	23.7	5.9	9.2	109.8	111.7	5.1	40.2	38.4
Ethiopia	17.5	3.1	-0.8	13.0	24.2	23.4	10.4	16.8	15.1
Sierra Leone	4.5	-4.9	4.4	54.4	61.6	62.6	29.5	22.6	21.5
Mozambique	-0.1	0.7	23.2	66.4	62.2	75.0	27.4	19.2	21.8
Malawi	-1.8	12.2	12.4	49.8	43.7	47.8	31.4	27.8	28.8
Bhutan	2.5	13.2	4.5	126.8	140.7	144.4	12.2	10.7	10.3
Lao People's Democratic Republic	-3.5	8.4	21.7	63.8	52.2	62.5	15.8	10.3	11.7
Cambodia	0.4	9.6	-3.0	38.7	38.7	36.9	12.4	8.7	7.9
Liberia	31.1	6.1	12.9	28.4	67.6	73.4	12.6	42.4	44.7
Myanmar	0.5	14.6	0.2	2.6	3.0	3.0	1.8	1.2	1.1
Bangladesh	1.0	-7.7	-11.3	10.6	8.7	7.6	3.0	2.1	1.7
Democratic Republic of the Congo	99.5	-1.8	9.4	4.9	31.1	33.0	4.2	25.7	26.4
Uganda	1.9	-3.8	28.0	45.3	40.7	50.4	16.2	12.8	15.4
Burundi	26.8	-1.4	10.8	19.1	46.5	49.5	17.7	45.8	47.9
Zambia	4.9	-18.8	48.5	102.2	81.5	118.7	18.4	12.8	17.9
Countries with real GDP growth between 3% and 6% in 2006									
United Republic of Tanzania	7.7	-17.3	19.9	38.9	38.5	45.0	14.6	11.8	13.3
Burkina Faso	6.9	6.9	24.7	39.3	48.9	59.1	11.7	12.6	14.9
Gambia	-2.6	8.7	19.3	45.9	37.9	44.0	16.6	13.3	15.0
Sao Tome and Principe	-9.8	-6.6	-34.4	356.6	209.0	134.9	84.9	44.9	27.9
Cape Verde	6.5	10.7	-17.3	287.9	319.9	258.4	17.0	16.5	12.9
Guinea	3.7	-28.3	-19.3	23.8	22.1	17.5	7.8	6.8	5.2
Solomon Islands	3.5	51.5	1.6	246.0	419.6	416.1	29.4	53.0	51.3
Madagascar	27.5	-28.2	-19.2	25.6	49.0	38.5	8.8	17.3	13.4
Guinea-Bissau	-1.4	0.5	1.0	84.6	49.5	48.6	38.2	26.3	25.4
Mali	6.2	19.9	15.1	48.3	60.2	67.2	12.0	12.7	14.0
Djibouti	-5.9	17.2	49.9	125.9	94.9	139.8	15.0	10.8	15.6
Togo	-7.4	25.2	-7.5	17.4	13.3	11.9	4.9	3.9	3.5
Senegal	11.7	-36.4	19.8	55.3	57.1	66.7	8.3	7.8	9.0
Samoa	-7.3	35.8	9.3	212.9	239.1	259.1	11.0	10.5	11.1
Yemen	-13.2	30.8	-17.5	18.7	15.9	12.8	2.6	2.1	1.7
Benin	2.3	-12.2	5.6	45.7	40.8	41.8	9.3	7.9	8.1
Niger	19.0	-7.3	-23.5	25.0	38.5	28.5	10.7	15.7	11.6
Vanuatu	-10.7	-0.9	22.5	335.3	183.3	219.0	18.7	11.4	13.5
Central African Republic	-1.0	-14.8	36.0	24.5	22.8	30.5	6.8	7.2	9.5
Rwanda	1.7	14.9	-0.3	53.6	61.8	60.2	27.2	27.4	26.5
Countries with real GDP growth < 3% in 2006									
Chad	14.3	13.8	-27.4	20.9	37.7	26.5	6.0	6.5	4.6
Somalia	7.1	13.9	59.8	20.4	28.9	44.9	7.1	10.2	16.0
Haiti	1.7	86.2	11.8	30.0	53.9	59.3	6.3	12.6	13.7
Eritrea	1.8	30.4	-64.6	64.0	78.4	26.8	29.7	36.6	12.7
Nepal	-1.8	-2.6	18.4	19.6	15.7	18.2	7.4	5.7	6.6
Lesotho	14.6	-29.9	2.2	28.1	34.6	35.1	4.2	4.7	4.7
Comoros	-4.0	-4.3	18.8	38.5	31.2	36.1	7.9	6.5	7.6
Tuvalu	1.5	6.5	76.3	587.1	860.1	1 509.6	31.6	36.1	62.9
Kiribati	-3.4	59.4	..	266.6	302.6	..	34.9	37.3	..
Equatorial Guinea	0.4	26.2	-32.9	76.7	79.5	52.1	1.5	0.5	0.4
Timor-Leste	-16.1	10.0	11.2	410.3	173.1	184.5	100.5	52.8	59.7
LDCs by export specialization									
Oil	14.4	7.4	-8.2	21.2	37.4	33.5	2.8	3.7	3.1
Agricultural	15.9	11.7	13.7	35.9	61.1	67.2	13.5	20.1	21.4
Mineral	19.1	-4.1	14.6	33.5	44.4	49.5	14.3	16.9	18.2
Manufactures	0.9	4.9	-0.8	15.1	14.4	14.0	4.3	3.5	3.3
Services	8.5	-0.1	0.8	28.3	35.6	35.0	14.4	15.5	14.6
Mixed	13.0	-24.6	0.7	18.4	23.4	23.1	6.9	6.9	6.5

Source: UNCTAD secretariat calculations based on OECD/DAC online, March 2008, and United Nations/DESA Statistics Division for population and GDP.
Note: Real GDP figures have been re-based to 2005 using an implicit GDP deflator. Country ranking as in table 2.

Table 14. Net ODA disbursements from all donors to LDCs, by aid type, 2000–2006
(Million 2006 dollars)

	2000–2004	2005	2006
ODA total net	22 919.2	26 588.9	28 181.3
ODA grants, total	19 172.0	23 825.3	52 707.9
Of which:			
Technical cooperation	4 119.5	5 151.2	5 438.6
Debt forgiveness grants	3 508.3	2 461.3	30 500.5
Of which:			
ODA principal forgiven	694.7	1 449.0	28 267.2
Other	2 813.5	1 012.4	2 233.4
Humanitarian aid	2 266.7	4 114.7	3 555.9
Development food aid	719.7	679.1	587.6
ODA loans total net	3 747.2	2 763.7	-24 526.6
Of which:			
Net loans[a]	4 437.0	4 212.8	3 740.6
Offsetting entry for debt relief	-694.7	-1 449.0	-28 267.2

Source: UNCTAD secretariat calculations based on OECD/DAC online, April 2008.
a Represents the difference between loans extended and loans received.

Only 58 per cent of ODA disbursements were available as financial resources for development projects and programmes within the LDCs.

(b) Technical cooperation grants amounted to almost a fifth of net ODA disbursements to LDCs in 2006;

(c) Humanitarian aid and food aid are also important components of aid to LDCs. They together accounted for as much as 18 per cent of net ODA disbursements in 2005 and 15 per cent in 2006; and

(d) Debt relief was a lower share of net ODA disbursements in 2005 and 2006 than in the period 2000–2004, falling to 8 per cent in 2006.[9]

Together, grants for technical cooperation, debt relief (excluding ODA principal forgiveness), humanitarian aid and food aid absorbed 42 per cent of net ODA disbursements in 2006. This was around the same share as during 2000–2004. But it meant that only 58 per cent of ODA disbursements were available as financial resources for development projects and programmes within the LDCs. In 2006, this was equivalent to $16.4 billion out of net ODA disbursements of $28.2 billion.

Multilateral and bilateral aid commitments are increasingly concentrated on social infrastructure and services.

It is possible to get an idea of the trends in the sectoral distribution of aid using OECD/DAC data on ODA commitments. These clearly show that multilateral and bilateral aid commitments are increasingly concentrated on social infrastructure and services. ODA commitments to social infrastructure and services constituted 42 per cent of net ODA disbursements to the LDCs in 2006, up from an average of 34 per cent during the period 2000–2004 and 31 per cent in the second half of the 1990s. In 2006, the share of aid going to education, health, population programmes, water supply and sanitation, Government and civil society all were higher than during the period 2000–2004. This reflects the impact of the focus on Millennium Development Goals (MDGs) as well as the concern to improve governance.

The share of aid committed to economic infrastructure and production sectors (including multisector) constituted just 25 per cent of total ODA commitments to LDCs in 2006.

In contrast, aid to build productive sectors and economic infrastructure has continued to receive less priority. The share of aid committed to economic infrastructure and production sectors (including multisector) constituted just 25 per cent of total ODA commitments to the LDCs in 2006. This was similar to the level during the period 2000–2004. Despite all the rhetoric of a renewed interest in economic infrastructure, the share of aid committed to transport and storage and energy was less in 2006 than in 2000–2004. The share committed to agriculture (including forestry and fishing) and industry (including mining and construction) also declined over that period. The share of aid committed to economic infrastructure and production sectors was also much lower than during 1995–1999, when it was 38 per cent. Aid commitments to improve economic infrastructure decreased from 18 per cent of total commitments to the LDCs in 1995–1999 to 12 per cent in 2006. Commitments to transport and storage infrastructure decreased from 11 per cent of total commitments to the LDCs in 1995–1999 to 6 per cent in 2006, and disbursements to energy-related sectors shrank from 5 per cent to 2 per cent in 2006 (table 15). Earlier estimates in the *Least Developed Countries Report 2006* showed that economic infrastructure and production sectors constituted as much as 48 per cent of total aid commitments during 1992–1994 (UNCTAD, 2006: 16–20).

The support to sectors that could best facilitate the economic capability-building process in the LDCs has been drastically downsized in relative terms.

It is impossible to get a clear picture of the sectoral composition of aid disbursements before 2002, owing to data unreliability. However, the recent data show that the share of aid disbursements to economic infrastructure and production sectors is even lower than the commitments data indicate. In 2006, just 19 per cent of net ODA disbursements to the LDCs went to economic infrastructure and production sectors.

To conclude, it is apparent that the upsurge in aid to the LDCs since 1999 has been associated with a major shift away from production sectors and economic infrastructure to social infrastructure and services. The support to sectors that could best facilitate the economic capability-building process in the LDCs has been drastically downsized in relative terms. The increased share of aid going to social sectors reflects donors' approach to poverty reduction. But poverty reduction depends on both private incomes and public services. The focus on improving and extending public services in health and education is certainly important. But sustainable poverty reduction also requires the expansion of employment

Table 15. Total sectoral allocation of nominal ODA disbursements and commitments to LDCs, bilateral and multilateral, 1995–2006
(Per cent)

	Commitments				Disbursements	
	1995–1999	*2000–2004*	*2005*	*2006*	*2005*	*2006*
Total	100.0	100.0	100.0	100.0	100.0	100.0
Social infrastructure and services	31.0	33.7	35.0	42.3	36.4	41.0
Education	7.7	8.3	6.8	9.4	7.5	8.0
Health	6.6	5.1	8.0	7.4	6.4	7.7
Water supply and sanitation	5.2	3.9	2.9	5.6	2.3	2.6
Government and civil society	6.7	9.4	10.4	11.5	10.2	13.5
Commodity aid	12.9	15.2	12.5	13.1	10.0	11.4
Action relating to debt	10.0	13.6	11.0	7.4	11.6	11.2
Emergency assistance and reconstruction	7.2	10.5	14.8	11.6	18.2	15.6
Sub-total	61.4	73.7	73.3	74.4	76.2	79.2
Economic infrastructure	18.7	12.9	12.5	11.6	8.8	8.9
Transport and storage	10.8	7.0	8.1	6.3	5.6	5.0
Communications	0.7	0.4	0.2	0.4	0.3	0.2
Energy	5.1	3.3	3.0	1.9	1.7	0.9
Banking and financial services	1.0	0.9	0.5	0.8	0.4	0.4
Production sectors	10.7	6.6	6.7	6.8	4.1	4.0
Multisector	8.1	5.9	5.8	6.4	4.2	5.7
Sub-total	37.3	24.7	25.0	24.7	17.1	18.6

Source: UNCTAD secretariat calculations based on OECD, *Creditor Reporting System*, online, May 2008.

Note: The shares do not add up to 100 as aid in support to NGOs, administrative costs of donors, support for refugees and unallocated aid are not shown.

and income-earning opportunities, and for this, aid for productive sectors and economic infrastructure is vital (see chapter 2 of this Report).

(c) Progress on aid commitments of the Brussels Programme of Action

Sustainable poverty reduction requires the expansion of employment and income-earning opportunities, and for this aid for productive sectors and economic infrastructure is vital.

The aid effort of all DAC member countries, as measured by the ODA to gross national income (GNI) ratio, stood at 0.09 per cent in 2006, up from 0.08 per cent in 2005 and 0.06 per cent in 2002. In 2006, more DAC member countries met the Brussels Programme of Action targets for aid. Eight DAC members (Luxembourg, Norway, Denmark, Sweden, Ireland, Netherlands, Belgium and United Kingdom) met the programme target of making net ODA disbursements equal to or higher than 0.15 per cent of their GNI, whilst six of these countries (the above countries except Belgium and United Kingdom) met the higher target of 0.20 per cent of GNI. Belgium and the United Kingdom both managed to increase their net ODA disbursements as shares of GNI between 2005 and 2006. Of the countries that did not meet the target, Spain and Italy decreased their net aid disbursements as a share of GNI between 2005 and 2006.

Among the DAC member countries, the United States is still the largest donor to the LDCs in absolute terms. In 2006, its net aid disbursements amounted to $6.4 billion, which accounted for 21.8 per cent of total DAC donors' aid. With $3.8 billion, the United Kingdom became the second largest donor to the LDCs in absolute terms in 2006, up from $2.7 billion in 2005. The European Union as a whole provided aid disbursements equivalent to $16.3 billion in 2006, 56 per cent of total DAC disbursements to the LDCs in 2006 and 28 per cent of their total aid (table 16).

The European Union provided 56 per cent of total of total DAC disbursements to LDCs in 2006 and the United States 21.8 per cent.

One of the important commitments of the Brussels Programme of Action was the 2001 DAC Recommendation on Untying Official Development Assistance to the Least Developed Countries. OECD progress reports on the implementation of this recommendation indicate that substantial progress has been made in implementing the recommendation. However, progress with expanding the coverage of the recommendation to include food aid and technical cooperation has been limited (OECD, 2008a). Moreover, a large proportion of contracts financed by untied aid are still going to donor country suppliers (OECD, 2008b). This is mainly because of practical constraints on local firms' participation in donor-funded procurement, including weak supply capacities and limited knowledge of international tendering. There are still gaps in data availability which limit analysis of progress on untying. But OECD/DAC statistics on the tying status of bilateral aid show that over 90 per cent of aid commitments (excluding technical cooperation and administrative costs) were untied in 2006 in all DAC members except Austria, where the untying ratio stood at 89.5 per cent, Greece, Italy, Portugal and Spain (OECD 2008b: 187). No data were reported to the DAC statistical reporting system for Australia and the United States, though the United States Millennium Challenge Account provides aid in untied form.

Over 90 per cent of aid commitment were untied in 2006, but a large proportion of contracts financed by untied aid are still going to donor country suppliers.

3. Trends in foreign direct investment

UNCTAD data show that FDI inflows into the LDCs fell in 2004 and 2005 after reaching a peak of $10.6 billion, but subsequently jumped again to $9.4 billion in 2006. Despite this recovery, the share of world FDI inflows going to the LDCs fell from 1.9 per cent in 2003 to 0.7 per cent in 2006 (chart 7). In contrast, 27 per cent of world FDI inflows went to developing countries.

Of the total FDI inflows to the LDCs, 88 per cent went to African LDCs in 2006. There has been little change in this proportion since 2000–2003 (table

Table 16. Net aid disbursements from OECD/DAC member countries to LDCs[a], 2005–2006
($ million, per cent)

	$ million		% of total DAC		LDCs' share (%)		% of donor's GNI	
	2005	*2006*	*2005*	*2006*	*2005*	*2006*	*2005*	*2006*
Countries meeting the Brussels aid target in 2006								
Luxembourg	105.6	123.4	0.4	0.4	42.4	45.2	0.35	0.38
Norway	1 029.1	1 128.6	4.2	3.8	38.6	40.1	0.35	0.34
Denmark	814.1	878.4	3.3	3.0	41.6	42.1	0.31	0.32
Sweden	1 100.6	1 151.7	4.5	3.9	34.0	30.1	0.31	0.30
Ireland	364.7	524.5	1.5	1.8	53.8	54.6	0.21	0.28
Netherlands	1 657.5	1 394.7	6.7	4.7	33.2	26.3	0.26	0.21
Belgium	609.3	729.3	2.5	2.5	31.5	37.5	0.16	0.18
United Kingdom	2 709.2	3 827.2	11.0	13.0	25.8	31.4	0.12	0.16
Countries not meeting the Brussels aid target in 2006								
Finland	245.4	296.0	1.0	1.0	28.2	38.3	0.13	0.14
Portugal	209.7	240.2	0.9	0.8	56.9	62.2	0.12	0.13
France	2 392.3	2 624.0	9.7	8.9	23.6	23.6	0.11	0.12
Switzerland	404.9	452.6	1.6	1.5	23.6	28.5	0.10	0.11
Canada	1 047.8	1 243.5	4.3	4.2	30.0	36.4	0.09	0.10
Germany	1 883.5	2 641.7	7.7	9.0	19.0	25.7	0.07	0.09
Austria	244.6	252.3	1.0	0.9	15.7	17.0	0.08	0.08
New Zealand	69.6	74.0	0.3	0.3	27.6	31.6	0.07	0.08
Japan	2 326.1	3 340.1	9.5	11.3	18.5	31.1	0.05	0.07
Spain	816.6	767.0	3.3	2.6	27.6	21.7	0.07	0.06
Australia	419.0	451.5	1.7	1.5	25.6	21.6	0.06	0.06
United States	4 661.1	6 416.2	18.9	21.8	18.2	27.9	0.04	0.05
Italy	1 406.8	789.0	5.7	2.7	29.2	22.5	0.08	0.04
Greece	79.5	102.7	0.3	0.3	21.3	25.2	0.03	0.03
Total DAC	**24 597.2**	**29 448.5**	**100.0**	**100.0**	**24.0**	**28.9**	**0.08**	**0.09**
Of which: EU-15	14 639.5	16 342.0	59.5	55.5	26.8	28.2	0.11	0.12

Source: UNCTAD secretariat calculations based on OECD/DAC, online, March 2008, and United Nations/DESA Statistics Division for GNI.
Note: The countries have been ranked according to their aid as share of donor's GNI for the year 2006.
a Includes imputed multilateral flows.

17). However, the share of FDI inflows to the LDCs going to oil-exporting LDCs actually declined between 2004 and 2006, from 56 per cent to 47 per cent of total LDC inflows over that period. This reflects the volatility of FDI inflows for natural resource extraction. In contrast, the share of the LDCs' FDI inflows going to manufacture-exporting LDCs increased considerably over this period, mainly due to increasing FDI inflows to Bangladesh, Cambodia and Lao People's Democratic Republic.

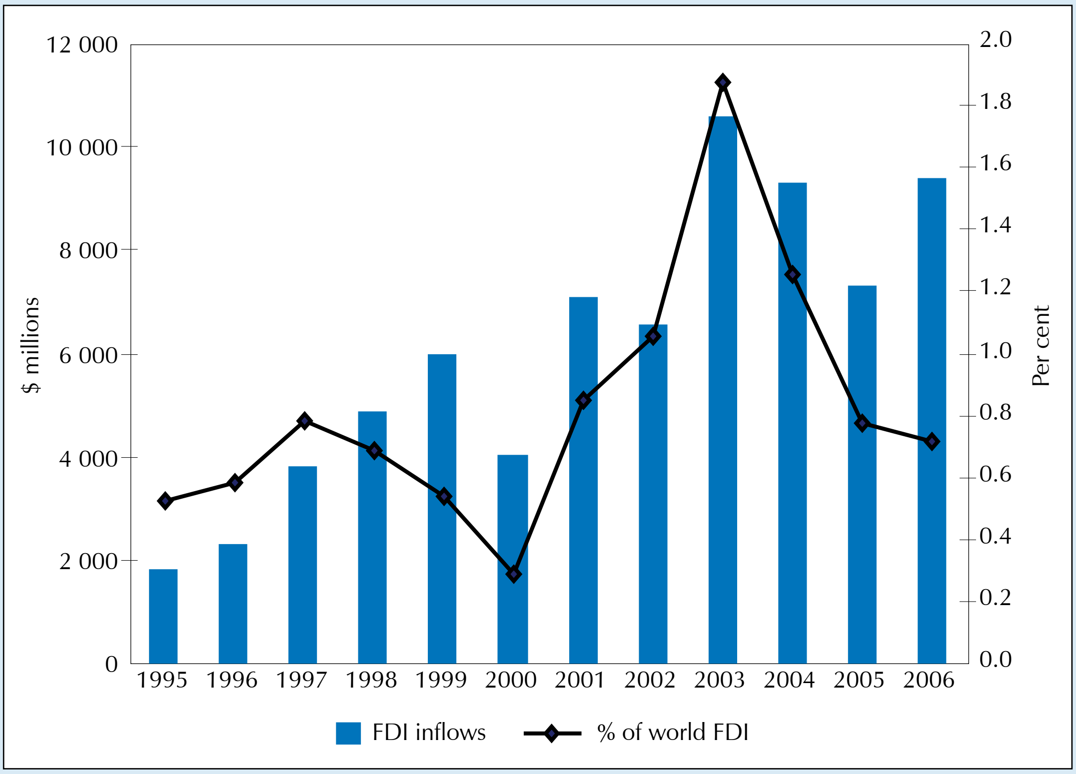
The share of FDI inflows to LDCs going to oil-exporting LDCs declined between 2004 and 2006, while that going to manufactures-exporting LDCs increased.

The five LDCs receiving the greatest volume of FDI inflows in 2006 are three oil-exporting LDCs, namely Sudan, Equatorial Guinea and Chad, followed by two manufactured-good exporting LDCs, namely Bangladesh and Cambodia. Together, these five countries received 75 per cent of the total FDI inflows to the LDCs in 2006.

FDI inflows were equivalent to about 15 per cent of gross fixed capital formation of LDCs as a group in 2006. But it constitutes around 23 per cent of such capital formation in the African and island LDCs. Moreover, it accounted for over 50 per cent of gross fixed capital formation in 2006 in seven LDCs — Burundi, Chad, Djibouti, Guinea-Bissau, Gambia, Sudan and Vanuatu. Given the low levels of investment by private domestic investors, FDI contributes a significant share of gross fixed capital formation even in LDCs where FDI inflows are small.

FDI inflows were equivalent to 23 per cent of gross fixed capital formation in the African and island LDCs.

Chart 7. FDI inflows into LDCs, 1995–2006
($ million, per cent of world FDI)



Source: UNCTAD secretariat calculations based on UNCTAD, FDI/TNC database.

Cross-border mergers and acquisitions accounted for 42 per cent of FDI inflows into the LDCs in 2006.Their overall developmental impact may be less than that of greenfield FDI.

The increasing flow of FDI into some LDCs which specialize in manufactures exports is a positive trend, as FDI in extractive industries has tended to be focused on enclaves with weak linkages to the rest of the economy and few spillovers into it. However, the balance of FDI inflows into the LDCs in the form of cross-border mergers and acquisitions on the one hand, and in the form of greenfield investment on the other hand, has also shifted considerably in recent years. Cross-border mergers and acquisitions accounted for 42 per cent of FDI inflows into the LDCs in 2006, up from 15 per cent over 2000–2003. Whilst the ownership changes associated with cross-border mergers and acquisitions can have a beneficial impact on productivity and links along value chains, their overall developmental impact, particularly on the development of productive capacities, may be less than FDI which involves greenfield investment.

4. Trends in workers' remittances

Workers' remittances to the LDCs increased from 2.9 per cent of GNI during 1995–1999 to 3.8 per cent in 2004, twice as much as in other developing countries.

Workers' remittances to the LDCs continuously increased over the recent period. The precise situation is difficult to gauge, owing to the fact that many of these private transfers were unrecorded. The available evidence shows that, in nominal terms, workers' remittances reached a record of $13.2 billion in 2006, compared with average annual remittances of $4.8 billion during 1995–1999 (table 18). As a share of GNI, workers' remittances to the LDCs increased from 2.9 per cent during 1995–1999 to 3.8 per cent in 2004, and have stayed around that level since. This was about twice as important as they were in other developing countries, where workers' remittances constituted 1.7 per cent of GNI on average.

Table 17. FDI inflows into LDCs, by country and by country groups, 2000–2006

($ million, per cent of GFCF)

	$ million				% of GFCF			
	2000–2003	*2004*	*2005*	*2006*	*2000–2003*	*2004*	*2005*	*2006*
Sudan	757	1 511	2 305	3 541	29.2	39.7	44.8	65.3
Equatorial Guinea	705	1 651	1 873	1 656	56.0	91.5	125.7	105.5
Chad	553	495	613	700	56.1	32.5	50.5	54.7
Bangladesh	403	460	692	625	3.4	3.0	4.6	3.9
Cambodia	132	131	381	483	17.8	11.4	32.3	38.9
United Republic of Tanzania	325	331	448	377	18.3	13.6	15.8	12.6
Ethiopia	301	545	221	364	24.4	30.1	8.9	13.9
Zambia	112	364	380	350	14.7	27.3	21.2	18.5
Uganda	180	222	257	307	15.1	12.2	12.7	14.3
Burundi	3	0	1	290	4.2	0.0	0.5	127.8
Madagascar	83	95	86	230	11.5	11.3	7.0	17.8
Lao People's Dem. Republic	26	17	28	187	9.1	3.9	5.8	37.1
Mali	145	101	224	185	22.7	9.5	19.1	15.0
Dem. Rep. of the Congo	95	10	-79	180	17.9	0.8	-9.5	20.5
Haiti	9	6	26	160	2.3	1.3	5.2	30.4
Mozambique	270	245	108	154	28.4	19.6	7.1	9.6
Myanmar	221	251	236	143	22.8	22.3	18.8	10.8
Cape Verde	19	20	76	122	10.1	6.5	22.4	26.7
Djibouti	6	39	22	108	8.0	28.0	23.2	107.6
Guinea	31	98	102	108	6.8	18.1	23.2	23.3
Somalia	0	-5	24	96	0.0	-1.1	5.4	20.6
Gambia	34	49	45	70	46.0	49.5	38.2	56.8
Benin	40	64	53	63	8.2	8.1	6.3	7.1
Vanuatu	17	18	13	61	32.5	27.9	19.8	86.2
Senegal	56	77	45	58	5.4	4.2	2.3	2.8
Lesotho	32	53	57	57	8.6	9.6	11.0	10.4
Togo	48	59	77	57	17.1	13.6	17.3	12.1
Sierra Leone	17	61	59	43	31.5	29.1	24.4	16.9
Guinea-Bissau	2	2	9	42	5.0	3.1	14.3	65.7
Malawi	28	22	27	30	13.3	12.5	13.5	14.4
Burkina Faso	18	14	34	26	2.4	1.2	2.7	1.9
Central African Republic	7	25	29	24	11.5	45.3	39.8	32.0
Niger	11	20	30	20	4.1	4.3	5.6	3.6
Solomon Islands	-3	6	19	19	-6.1	10.9	32.6	31.3
Rwanda	5	8	11	15	1.6	2.1	2.3	3.1
Maldives	13	15	9	14	7.3	5.4	4.6	6.4
Kiribati	16	19	1	12	73.8	65.6	2.5	36.7
Bhutan	1	3	9	6	0.3	0.8	1.4	0.9
Eritrea	20	-8	-3	4	11.1	-3.7	-1.2	1.4
Timor-Leste	30	3	0	3	20.1	3.0	0.1	2.4
Afghanistan	1	1	4	2	0.1	0.1	0.3	0.2
Comoros	1	1	1	1	2.6	2.1	2.8	2.2
Tuvalu	6	0	0	0	74.7	0.3	-0.1	0.1
Sao Tome and Principe	3	-2	-1	0	16.3	-7.3	-2.4	-1.7
Samoa	0	2	-4	-2	-0.1	5.5	-7.6	-3.3
Mauritania	72	392	864	-3	52.5	220.4	392.8	-1.5
Nepal	7	0	2	-7	0.7	0.0	0.2	-0.4
Liberia	101	237	-479	-82	269.6	355.4	-951.7	-153.9
Yemen	62	144	-302	-385	3.3	5.3	-11.5	-13.9
Angola	2 050	1 449	-1 303	-1 140	139.4	80.4	-40.1	-33.3
LDCs	**7 064**	**9 320**	**7 326**	**9 375**	**17.9**	**17.5**	**12.5**	**15.1**
African LDCs and Haiti	*6 141*	*8 251*	*6 238*	*8 212*	*29.7*	*28.1*	*18.2*	*22.6*
Asian LDCs	*875*	*1 010*	*1 050*	*1 058*	*4.9*	*4.3*	*4.4*	*4.2*
Island LDCs	*48*	*59*	*39*	*104*	*14.0*	*12.6*	*9.1*	*23.3*

Source: UNCTAD secretariat calculations based on UNCTAD FDI/TNC database.

Note: Negative FDI flows indicate that one of the three components of FDIs (equity capital, reinvested earnings, intra-company loans) is negative and not offset by the positive amounts of the remaining components.
Countries have been ranked in decreasing order according the value of FDI inflows in 2006.

Table 18. Workers' remittances to LDCs, by country, and to the other developing countries, 1995–2006

($ million, per cent)

	$ million				% of GNI				% of LDC remittances
	1995–1999	2000–2002	2005	2006	1995–1999	2000–2002	2005	2006	2006
Countries with remittances >10% of GNI									
Haiti	253.2	626.0	985.0	985.0	8.1	18.8	24.7	21.3	7.4
Lesotho	349.8	218.3	327.0	327.0	28.1	23.0	18.6	18.7	2.5
Nepal	60.2	312.0	1 211.0	1 211.0	1.3	5.5	15.9	16.2	9.1
Cape Verde	87.0	84.3	137.0	137.0	16.9	14.9	15.2	12.6	1.0
Gambia	11.6	9.3	58.0	58.0	2.9	2.5	13.0	12.0	0.4
Countries with remittances between 5% and 10% of GNI									
Guinea-Bissau	2.0	10.0	28.0	28.0	0.9	5.2	9.7	9.2	0.2
Uganda	233.0	333.7	450.0	845.0	3.8	5.8	5.0	8.7	6.4
Togo	22.4	69.0	179.0	179.0	1.5	5.0	8.2	7.9	1.4
Bangladesh	1 497.2	2 310.3	4 314.0	5 485.0	3.2	4.4	6.3	7.6	41.4
Yemen	1 161.6	1 292.3	1 283.0	1 283.0	18.9	13.8	8.8	7.5	9.7
Senegal	155.8	294.0	633.0	633.0	3.0	5.9	7.3	6.8	4.8
Kiribati	7.0	7.0	7.0	7.0	7.9	7.6	5.4	5.4	0.1
Countries with remittances < 5% of GNI									
Cambodia	52.4	131.3	200.0	200.0	1.6	3.5	3.4	3.2	1.5
Vanuatu	22.8	32.0	11.0	11.0	9.6	13.7	3.3	3.2	0.1
Mali	97.0	99.3	177.0	177.0	3.5	3.5	3.4	3.1	1.3
Comoros	12.0	12.0	12.0	12.0	5.4	5.4	3.2	3.0	0.1
Sudan	468.0	786.3	1 016.0	1 016.0	4.7	6.4	4.3	3.0	7.7
Sao Tome and Principe	1.0	1.0	1.0	1.0	2.5	2.2	1.9	1.8	0.0
Niger	12.6	18.3	60.0	60.0	0.7	1.0	1.9	1.8	0.5
Guinea	2.8	8.3	42.0	42.0	0.1	0.3	1.5	1.5	0.3
Benin	84.8	82.4	63.0	63.0	3.7	3.3	1.5	1.4	0.5
Ethiopia	22.6	34.7	174.0	172.0	0.3	0.5	1.5	1.3	1.3
Mozambique	53.6	44.0	57.0	80.0	1.7	1.2	0.9	1.2	0.6
Rwanda	8.2	7.3	21.0	21.0	0.5	0.4	1.0	0.9	0.2
Myanmar	125.4	109.0	117.0	117.0	1.7	1.3	1.0	0.9	0.9
Burkina Faso	80.0	55.7	50.0	50.0	2.6	2.0	0.9	0.8	0.4
Solomon Islands	2.0	2.0	2.0	2.0	0.5	0.6	0.5	0.5	0.0
Samoa	43.8	30.3	1.0	1.0	19.6	12.8	0.3	0.2	0.0
Maldives	2.2	2.0	2.0	2.0	0.5	0.3	0.3	0.2	0.0
Madagascar	12.0	13.0	11.0	11.0	0.3	0.3	0.2	0.2	0.1
United Rep. of Tanzania	8.2	11.7	16.0	16.0	0.1	0.1	0.1	0.1	0.1
Sierra Leone	19.4	12.0	2.0	2.0	1.9	1.1	0.1	0.1	0.0
Mauritania	3.2	2.0	2.0	2.0	0.3	0.2	0.1	0.1	0.0
Malawi	1.0	1.0	1.0	1.0	0.1	0.1	0.0	0.0	0.0
Lao People's Dem. Rep.	31.8	1.0	1.0	1.0	2.0	0.1	0.0	0.0	0.0
Djibouti	12.0	..	..	..	2.4	..	..	..	..
Eritrea	3.5	3.0	..	..	0.4	0.4	..	..	..
LDCs	**4 823.4**	**7 064.1**	**11 651.0**	**13 238.0**	**2.9**	**3.8**	**4.0**	**3.9**	**100.0**
ODCs	**62 552.0**	**90 998.5**	**171 971.0**	**189 090.4**	**1.1**	**1.4**	**1.8**	**1.7**	**..**

Source: UNCTAD secretariat calculations based on World Bank, *Global Development Finance*, online, March 2008 and United Nations/DESA Statistics Division for GNI.

Note: Data not available for Afghanistan, Angola, Bhutan, Burundi, Central African Republic, Chad, Dem. Rep. of the Congo, Equatorial Guinea, Liberia, Somalia, Timor-Leste and Zambia.
Countries have been ranked according to their share of remittances in GDP (from the highest to the lowest) for the year 2006.

For the LDCs as a group, the scale of workers' remittances is such that they were 40 per cent higher than FDI inflows to the LDCs in 2006. This is a significant feature of the form of integration of the LDCs into the global economy. Whilst they are marginalized from private international capital markets, their integration through international labour markets is increasingly important for their economies.

As with FDI inflows, workers' remittances are highly concentrated in a few LDCs. Workers' remittances going to the Asian LDCs account for over 60 per cent of the total workers' remittances flowing to the LDCs. Bangladesh alone received 41 per cent of the total workers' remittances to the LDCs in 2006, and Yemen and Nepal together received a further 19 per cent. Workers' remittances accounted for more than 5 per cent of GNI in almost a third of the LDCs for which data were available (12 of the 38 countries). Moreover, they accounted for over 10 per cent of GNI in five countries — Haiti, Lesotho, Nepal, Cape Verde and Gambia. This highlights the high degree of dependency on workers' remittances that characterizes the economies of some LDCs. However, there are some LDCs for which workers' remittances do not play a significant role. For almost a third of LDCs for which data are available (once again 12 countries), workers' remittances accounted for less than 1 per cent of their GNI in 2006 (table 18).

Workers' remittances accounted for over 10 per cent of GNI in Haiti, Lesotho, Nepal, Cape Verde and Gambia.

The increasing dependence of LDCs on workers' remittances can be seen as offsetting the decline in aggregate net transfers discussed earlier in this chapter. However, the developmental, rather than poverty-alleviating, impact of workers' remittances remains to be proven, and the big differences amongst LDCs in terms of their significance implies that their role varies considerably amongst the countries in the group. They should not be seen as a substitute for long-term capital inflows and deliberate policies are required to enhance the development impact of remittances.

Workers' remittances are not a substitute for long-term capital inflows and deliberate policies are required to enhance their development impact.

F. Trends in external debt

The LDCs' total debt stock reached a record level of $163 billion in 2004, after three successive annual increases. As shown in previous *Least Developed Countries Reports*, most of these increases was attributable to an expansion in the multilateral debt stock. But the total debt stock fell moderately in 2005, to $157.4 billion, and more dramatically in 2006, to $131.5 billion.

Country data show that the debt stock fell in 17 out of 46 LDCs, including 16 of the 33 African LDCs for which data are available. African LDCs still accounted for 65 per cent of the total debt stock of the LDCs in 2006, but this was down from a high of 77 per cent in 1998. Both multilateral and bilateral debt fell between 2004 and 2006, but the former declined at a faster rate. Multilateral debt constituted 58 per cent of total LDC debt stock in 2004, but fell to 53 per cent in 2006.

LDCs' total debt stock has fallen dramatically, reflecting the continued implementation of the Enhanced HIPC Initiative and also the adoption of the MDRI in 2006.

In contrast to other developing countries, most of the debt of LDCs is owed to official creditors. In 2006, for example, debt arising from concessional loans constituted 73 per cent of the total debt stock in LDCs, as against 22 per cent in other developing countries. As a consequence, trends in debt stock are strongly influenced by official debt relief initiatives.

The recent debt stock trends in LDCs reflect, in particular, the continued implementation of the Enhanced Heavily Indebted Poor Countries (HIPC) Initiative and also the adoption of the MDRI in 2006. The latter Initiative goes further than the former by providing additional resources for the cancellation of multilateral debt contracted with the World Bank, International Monetary Fund (IMF) and African Development Bank for countries which have passed the completion point of the HIPC Initiative (see box 3). As a result of the MDRI, grants for ODA principal forgiveness increased from $1.5 billion in 2005 to $28.2 billion in 2006. In effect, such debt forgiveness retrospectively converted earlier concessional loans into grants (see subsection E.2 above). Of this sum ($26.9 billion), 97 per cent was related to the MDRI.

Box 3. The Multilateral Debt Relief Initiative

In 2005, the G-8 countries, during the summit in Gleneagles, proposed to cancel the entirety of the debt of the eligible heavily indebted poor countries (HIPCs) contracted with the International Development Association (IDA) — the concessional facility agency of the World Bank — before 1 January 2004, and with the IMF and the African Development Fund before 1 January 2005. The Inter-American Development Bank joined in 2007. Such an initiative led to the creation of the MDRI, whose objective is "to provide additional support to HIPCs to reach the MDGs while ensuring that the financing capacity of the IFIs is preserved" (World Bank, 2006b: 2). The MDRI became effective on 1 January 2006 for the IMF and the African Development Fund, and 1 July for the IDA.

Analysts have shown that, to preserve the IFI financing capacity, the MDRI applies the criterion of additionality in aid, which implies that debt cancellation will involve additional financing by the international community.

The MDRI is particularly important for LDCs because multilateral debt accounts for such a high level of their overall debt stock. LDCs which have received debt cancellation under MRDI have experienced major reductions in indicators of their debt burden. But the additionality of the debt relief is not as great as it might be because of how it works. The way in which the World Bank debt cancellation works is that if a country paid IDA debt service of $10 million, this would be cut by $10 million, but at the same time the country would receive an equivalent cut of $10 million in new finance from IDA. Donors would then compensate IDA for this $10 million write-off and this money would be distributed amongst all IDA-only countries according to their score on the Country Policy and Institutional Assessment index. For example, the country getting the debt relief might get $5 million back from this process. Analysis suggests that this considerably reduces the additionality of the MRDI (Hurley, 2007).

Countries become eligible for debt relief under the MDRI once they reach the HIPC completion point. This requires that they meet all of the following conditions:

(a) Satisfactory macroeconomic performance under an IMF poverty reduction and growth facility programme;

(b) Satisfactory progress in implementing a poverty reduction strategy; and

(c) An adequate public expenditure management system that meets minimum standards for governance and transparency in the use of public resources (World Bank, 2006a; World Bank, 2006b).

Furthermore, all post-HIPC completion point countries "will be required to maintain reasonable governance standards" (World Bank, 2006b: 6), as well as high standards for transparency and public expenditure management. MDRI recipient countries are subject to a three- to five-year assessment of their public financial management.

Source: Djoufelkit-Cottenet (2007), World Bank (2006a) and World Bank (2006b).

Table 19 shows the status of LDCs within the HIPC Initiative as of October 2007. Sixteen LDCs had reached completion point and were receiving irrevocable debt relief under the terms of the initiative. Of these countries, four LDCs — Malawi, Rwanda, Sierra Leone and Zambia — reached the HIPC completion point in 2005 or 2006 and Sao Tome and Principe in 2007. All of these 16 LDCs

Table 19. LDCs covered by the HIPC initiative
(As of October 2007)

Completion point (date of completion point)	Decision point (date of decision point)	Pre-decision point
Benin (2003)	Afghanistan (2007)	Comoros
Burkina Faso (2002)	Burundi (2005)	Eritrea
Ethiopia (2004)	Central African Rep. (2007)	Liberia
Madagascar (2004)	Chad (2001)	Nepal
Mali (2003)	Dem. Rep. of the Congo (2003)	Somalia
Malawi (2006)	Gambia (2000)	Sudan
Mauritania (2002)	Guinea (2000)	Togo
Mozambique (2001)	Guinea-Bissau (2000)	
Niger (2004)	Haiti (2006)	
Rwanda (2005)		
Sao Tome & Principe (2007)		
Senegal (2004)		
Sierra Leone (2006)		
Uganda (2000)		
United Rep. of Tanzania (2001)		
Zambia (2005)		

Source: World Bank.

have also benefited from MDRI debt cancellation. This has radically changed their debt burden and opens a window of opportunity.

Progress in debt relief remains slow for the other LDCs eligible for HIPC. Various conditions have to be met, both to reach the HIPC decision point and to proceed to completion point. The time between decision point and completion point has been increasing since the early batch of countries reached decision-point before end–2003. For the five LDCs which reached completion point in 2005 and 2006, the time between completion point and decision point was 4.3 years for Zambia and Rwanda, 4.7 years for Sierra Leone, 5.7 years for Malawi and 6.2 years for Sao Tome et Principe (IMF and World Bank, 2007: figure 1). Of the nine LDCs that have passed the decision point, but not reached completion point, four reached decision point in 2001 and one in 2003. These countries — Chad, Gambia, Guinea, Guinea-Bissau and Democratic Republic of the Congo — have all experienced interruptions in their IMF-supported programmes and have faced difficulties in meeting completion-point triggers. But Burundi, Chad, Democratic Republic of the Congo, Gambia, Guinea-Bissau and Guinea adopted a full Poverty Reduction Strategy Paper (PRSP) by the end of 2007, a condition for reaching the completion point.

Sixteen LDCs had reached completion point and were receiving irrevocable debt relief under the HIPC Initiative.

Of the seven LDCs which have been judged eligible for HIPC according to their debt sustainability criteria, but have not reached decision-point, four — Liberia, Somalia, Sudan and Togo — have large arrears to multilateral institutions and have not been able to engage in IMF- and IDA-supported programmes, three years' participation in which is a condition for reaching the decision point.[10] Moreover, other LDCs which are not judged eligible for the HIPC Initiative remain outside the debt forgiveness process.

For the LDCs as a group, the overall debt burden fell sharply from 86 per cent of GNI in 2000–2002 to 42 per cent in 2006.

The effect of these initiatives on the debt burden for the LDCs as a group and for individual LDCs is shown in table 20. For the LDCs as a group, there has been a major reduction in the overall debt burden since 2000–2002. LDCs' debt stocks fell from 86 per cent of GNI during 2000–2002 to 58 per cent in 2005, and then dropped further to 42 per cent in 2006. But within the overall trend, some countries are doing much better than others.

LDCs which are not judged eligible for the HIPC Initiative remain outside the debt forgiveness process.

From the table, it is apparent that there has been a major improvement in the debt situation in those LDCs which have received debt cancellation under the MDRI. The debt stock in these countries was cut from $54.7 billion in 2005 to $25.7 billion in 2006. In almost all of these countries, the total debt stock as a share of GNI was halved between 2005 and 2006. Nevertheless, the debt service payments of these countries actually increased, from $1.1 billion in 2005 to $1.3 billion in 2006. As a ratio of exports of goods, services and workers' remittances, debt service payment for this group of countries fell marginally, from an average of 6.8 per cent in 2005 to 5.7 per cent in 2006.

At the other end of the spectrum, it is clear that the debt burden remains very high in most of those LDCs which are eligible for HIPC debt relief, but have not reached the decision point or the completion point. The debt stock as a share of GNI is increasing in nine LDCs, including five LDCs which have reached the HIPC decision point — Burundi, Chad, Guinea, Guinea-Bissau and Haiti. Moreover, of the 45 LDCs for which data are available, the debt stock in 2006 was higher than the GNI in nine LDCs and over 50 per cent of GNI in a further 13 countries.

The debt stock in 2006 was higher than the GNI in nine LDCs and over 50 per cent of GNI in a further 13 countries.

Despite overall improvement in the debt situation, the debt burden for the LDCs as a group remains much higher than in other developing countries — on average 42 per cent of GNI in 2006 in the LDCs, compared with 26 per cent in other developing countries. Moreover, although the debt relief provides important breathing space for those countries which have reached HIPC completion point

Table 20. Selected indicators on debt burden in LDCs, by country, and ODCs, 2000–2006

(Per cent)

	Total debt stock as % GNI			Total debt stock as % exports[a]			Total debt service as % exports[a]		
	2000–2002	2005	2006	2000–2002	2005	2006	2000–2002	2005	2006
Coutnries with debt > 100% of GNI in 2006									
Liberia	524.5	619.2	541.3	..	..	..	..	..	..
Sao Tome and Principe*	..	..	295.8	1 819.5	1 540.6	..	25.5	..	..
Guinea-Bissau	374.7	239.6	241.2	959.3	564.2	..	22.0	..	..
Samoa	87.8	172.2	205.5	..	527.4	693.5	..	17.3	19.9
Burundi	172.1	170.3	179.7	2 493.8	1 440.9	1518.9	49.4	41.5	40.4
Gambia	136.8	150.0	145.2	..	459.1	..	..	11.8	12.4
Dem. Rep. of the Congo	253.1	156.8	137.5	..	484.0	487.0	..	..	..
Sierra Leone*	174.6	141.8	101.0	1 526.3	704.9	..	63.1	9.3	9.6
Guinea	109.8	98.9	100.2	419.8	..	..	16.0	..	..
Countries with debt between 50% and 100% of GNI in 2006									
Lao People's Dem. Republic	155.5	103.0	99.5	542.0	..	..	8.5	..	..
Togo	108.5	81.7	82.8	278.2	175.7	..	4.9	1.6	..
Bhutan	56.6	79.7	77.1	209.5	202.7	..	0.0	..	..
Eritrea	64.8	76.5	74.1	349.3	..	..	3.1	..	..
Comoros	112.8	75.6	70.3	538.7	423.6	410.7	..	..	..
Central African Republic	93.3	74.3	68.7	..	..	..	..	..	..
Mauritania*	201.7	121.8	58.9	570.5	346.3	..	..	..	..
Sudan	140.4	71.0	56.0	629.1	309.9	278.5	7.9	6.4	4.1
Djibouti	48.3	53.1	55.3	..	..	..	5.1	4.6	6.4
Cape Verde	65.7	56.3	54.7	162.9	125.9	108.3	6.6	6.5	4.7
Maldives	39.9	50.7	52.3	50.1	75.7	65.6	4.5	7.0	4.9
Solomon Islands	64.2	55.8	51.3	188.2	116.2	97.9	8.3	8.9	2.0
Cambodia	71.6	59.1	51.1	123.0	83.1	68.0	1.1	0.7	0.6
Countries with debt < 50% of GNI in 2006									
Mozambique*	159.4	72.3	47.1	584.3	216.2	114.7	9.1	3.8	1.9
Nepal	50.0	42.4	41.4	201.3	132.1	144.5	6.7	4.7	5.1
Malawi*	154.9	156.6	38.8	598.6	585.7	121.6	10.1	..	..
Lesotho	68.2	37.7	37.6	118.9	64.2	60.8	11.6	7.4	4.0
Haiti	33.5	30.3	34.7	114.6	83.5	88.2	3.0	3.2	3.2
Chad	73.1	33.6	34.2	488.5	51.7	..	..	..	..
United Rep. Tanzania*	71.8	62.8	33.3	395.4	262.8	130.3	8.9	4.3	3.4
Yemen	57.9	35.3	31.6	99.3	66.5	60.7	4.3	2.6	2.4
Bangladesh	32.6	30.0	31.4	171.9	127.4	110.5	7.8	5.4	3.7
Madagascar*	106.8	69.9	26.8	355.1	177.5	65.2	6.5	5.7	..
Angola	110.0	41.0	24.5	113.3	48.5	..	23.5	10.7	12.8
Vanuatu	34.6	24.0	24.1	47.8	45.8	42.5	1.1	1.3	1.7
Mali*	111.3	59.6	23.4	304.5	190.6	..	9.3	5.6	..
Zambia*	182.6	79.0	23.3	619.1	253.4	56.6	19.6	10.9	3.6
Senegal*	83.4	47.9	22.4	222.4	130.1	..	12.8	..	..
Niger*	86.5	58.3	22.1	488.1	307.0	..	7.6	5.9	..
Burkina Faso*	52.1	35.9	18.3	473.1	348.3	..	13.3	..	..
Ethiopia*	77.1	55.2	17.5	564.9	299.7	97.1	12.9	4.1	6.8
Benin*	69.2	43.5	17.5	268.2	222.1	..	9.5	7.4	..
Rwanda*	77.0	71.6	16.9	960.9	551.5	145.9	15.3	8.1	9.6
Uganda*	65.6	51.7	13.8	371.7	243.1	55.5	6.2	9.3	4.8
Equatorial Guinea	26.5	7.6	5.3	14.9	3.8	..	..	..	..
Myanmar	..	..	..	208.7	158.2	..	3.5	2.5	1.7
LDCs	**86.2**	**58.2**	**42.4**	**261.4**	**140.2**	**92.0**	**8.8**	**6.0**	**6.3**
ODCs	**37.3**	**27.6**	**25.7**	**94.8**	**61.5**	**56.2**	**16.6**	**12.8**	**13.2**

Source: UNCTAD secretariat calculations based on World Bank, *Global Development Finance*, online data, March 2008.

Note: Data not available for Afghanistan, Kiribati, Somalia, Timor-Leste and Tuvalu.
Group averages have been weighted according to the denominator and are subject to data availability.

a Includes all exports of goods and services, and workers' remittances.

* HIPC countries that have reached the completion point.

and have received debt cancellation under the MDRI, the long-term sustainability of debt remains a problem.

This point was clearly made by the evaluation update of the HIPC Initiative, which was undertaken before the MDRI. It pointed out the limits of debt relief as a means of assuring debt sustainability and showed that "debt ratios have deteriorated significantly since completion point in the majority of countries, with the increase in debt ratios correlated quite closely to the length of time since completion point" (IEG, 2006: 21). Before the MDRI, Burkina Faso, Ethiopia, Rwanda and Uganda were all expected to be unable to maintain debt sustainability above the HIPC thresholds in the nine years following completion point. Moreover, the evaluation found that the forecasts underlying predictions of future debt sustainability for these countries, and also those which were expected to remain below the sustainability threshold, continued to be based on forecasts of GDP and export growth which were far higher than historical trends.

Despite debt forgiveness, the debt burden for the LDCs (42 per cent of GNI) is much higher than in other developing countries (26 per cent).

The MDRI has improved this situation. However, according to the latest IMF-World Bank assessment of debt sustainability, debt distress is low in only seven post-completion point LDCs. It is moderate in Benin, Burkina Faso, Ethiopia, Malawi, Mauritania, Niger, Sao Tome and Principe and Sierra Leone, and remains high for Rwanda (IMF and World Bank, 2007). A simulation of the first 16 post-completion point HIPCs to participate in the MDRI also finds that, in the absence of MDRI, the net present value of the external debt stock of these countries is expected to rise from 74 per cent of exports in 2004 to 236 per cent by the end of 2015. With the MDRI, it is expected to rise much less, but — at 176 per cent of exports — still be unsustainable according to HIPC thresholds in 2015 (Nwachukwu, 2008).

Debt ratios have deteriorated significantly since completion point in the majority of countries.

These results reflect the assumption of the simulation. They depend on estimates of the grant component of new disbursements, as well as forecasts of domestic savings and foreign exchange receipts. However, the model also clarifies the key conditions for growth with external debt. These are that: (a) the projected marginal savings rate exceeds the fixed investment ratio required to achieve the target rate of growth; (b) the anticipated rate of growth of imports should not exceed the growth of exports; (c) the estimated growth of external debt and interest payments should not continuously exceed the real growth rate of exports; and (d) the marginal product of foreign capital should be greater than the cost of international borrowing.

Unless there is a shift in emphasis to building up the productive base of poor economies and to promote structural change, they will become unsustainably indebted again.

The key to ensuring debt sustainability is to develop productive capacities. The problem with the current situation and the focus on social sectors is that this is not being done. On the contrary, the MDGs build up fiscal obligations for Governments without generating at the same time a sound fiscal base to raise these revenues. Similarly, they increase import requirements without building up export receipts to pay for these imports. Unless there is a shift in emphasis to building up the productive base of poor economies and promote structural change to reduce vulnerability to commodity price shocks, they will inevitably become unsustainably indebted again.

G. Conclusion

LDCs as a group achieved the strongest growth performance in 30 years in 2005 and 2006, underpinned by record levels of exports and capital inflows.

This chapter has shown that the LDCs as a group achieved the strongest growth performance in 30 years in 2005 and 2006, with the average growth rate surpassing the Brussels Programme of Action growth target (7 per cent) in those years. Improvement in their growth performance was underpinned by a record of level of exports, which was particularly associated with high commodity prices for oil and minerals, and record levels of capital inflows, particularly aid. In nominal terms, the value of merchandise exports from the LDCs rose by some 80 per cent between 2004 and 2006, reaching $99 billion in the latter year. Annual long-term capital inflows excluding debt forgiveness grants were about 60 per cent higher than during 2000–2003, and double the level of the second half of the 1990s. Net aid disbursements reached the record level of $28.1 billion in 2006. Moreover, 16 LDCs also received significant debt relief in 2006, with $26.9 of ODA principal being forgiven for 16 of them through the MDRI. FDI inflows recovered to $9.4 billion in 2006, slightly down from the peak in 2003, whilst recorded migrant remittances reached the record level of $13.2 billion in 2006.

Growth sustainability is questionable due to: (a) feeble structural transformation; (b) rising trade deficits; and (c) falling net transfers.

Although the high GDP growth rates are very positive, the sustainability of the growth performance in 2005 and 2006 remains questionable. The recent growth surge is generally not associated with a structural transition in which the share of manufactures in total output is growing (except for most Asian LDCs). In fact, as compared with 10 years earlier, half of the LDCs have experienced de-industrialization, reflected in a declining share of manufacturing in GDP. The level of domestic savings continues to be low in many LDCs, including good performers. In 2006, only one third of the LDCs had gross domestic savings rates above 15 per cent and 15 LDCs had negative domestic savings rates, meaning that they were relying on foreign savings not only to finance domestic investment, but also their domestic consumption.

Even though LDCs' GDP growth rate outperformed other developing countries, their average per capita income has continued to diverge.

Other sources of vulnerability arise from: (a) increasing merchandise trade deficits in many LDCs, particularly those which specialize in exporting agricultural commodities; and (b) increasing pressures from rising oil and food prices. Oil and food together constituted 31 per cent of LDC merchandise imports by value in 2006. Another particularly disturbing trend is that aggregate net transfers (excluding debt forgiveness grants) to the LDCs declined by one third from 2004 to 2006. This was due to a slowdown in the rate of increase in capital inflows into the LDCs, as donors slowed the pace of aid scale-up and FDI inflows briefly faltered, at the same time as profit remittances soared and interest payments on loans also rose. This decline makes the LDCs particularly vulnerable to external prices shocks and interruptions to the commodity boom.

Dependence on commodities has increased since 2000, along with the growth acceleration.

The chapter also shows that there is a high degree of variation amongst the LDCs. Not all of them are experiencing rapid growth. In 2006, the real GDP grew by 6 per cent or more in 19 LDCs, by between 3 and 6 per cent in 20 LDCs, by less than 3 per cent in 9 LDCs, and declined in two LDCs. Most LDCs have high population growth rates (2.5 per cent per annum on average) and as a result, even though they outperformed other developing countries in terms of GDP growth rates, their average per capita income has continued to diverge from other developing countries in all years since 2000 except 2005. GDP per capita stagnated or declined in nine LDCs in 2006 and grew by less than 1 per cent in almost one third of the LDCs.

For the LDCs as a group, dependence on commodities has increased since 2000, along with the growth acceleration. Primary commodities increased from 59 per cent of total merchandise exports in 2000-2002 to 77 per cent in 2005-2006. But within this overall pattern, there is considerable divergence between the African, Asian and island LDCs. The Asian LDCs continue to diversify their economies away from commodities towards manufacturing, while the African LDCs increase dependence on primary commodities. The Island LDCs remain primarily dependent on service exports which also exhibit high levels of volatility.

LDCs must build economic resilience through diversification and technological upgrading.

The widening regional divergence between the African and Asian LDCs in terms of the form of their integration into the global economy is evident in their different export structure. In the 2005-2006 period, 92 per cent of all exports from the African LDCs consisted of primary commodities, including fuels, while in the Asian LDCs, this figure was 44 per cent. This type of specialization renders the Asian LDCs much less vulnerable to external fluctuations. Some of them have also achieved high rates of export growth based on manufactures. However, the share of medium and high tech manufactured exports originating from the LDCs remains very small (8.4 per cent). The slowness of the process of export upgrading in the Asian LDCs remains an issue of concern.

The LDCs will face major challenges in the period ahead as the global economy slows down and downside risks of the future outlook increase.

Accelerated growth underpinned by fluctuating prices of primary commodities cannot guarantee sustainable growth in an increasingly open, globalized economy. Those LDCs which have diversified into low-skill manufactures face increasing global competition. The LDCs must build economic resilience through diversification and technological upgrading. Otherwise, their growth will remain fragile. Investment in productive sectors remains the key lever for robust growth that increases domestic savings, creates employment opportunities and stimulates local demand. Only then can external risks be mitigated and growth made more sustainable.

A virtuous circle of sustained growth can be catalyzed by aid inflows. Even though they are rising, however, aid disbursements remain below donor commitments in the Brussels Programme of Action. Moreover, they are more focused on social sectors and social infrastructure than on increasing investment in economic infrastructure and developing productive sectors. In some LDCs, a good export performance is associated with falling aid receipts rather than aid and trade working together to reinforce development.

There is no automatic relationship between increasing exports and the development of productive capacities and structural change.

With the global economy slowing down and downside risks of the future outlook increasing, the LDCs will face major challenges in the period ahead. This will require renewed efforts to promote not simply accelerated GDP growth, but a type of economic growth which is sustainable. More attention needs to be given to the form of integration into the global economy, rather than the level of integration and the degree of openness *per se*. It is clear from recent experience that there is no automatic relationship between increasing exports, the development of productive capacities and structural change. Increasing dependence on primary commodities and low-skill manufactures has not translated into catch-up growth with other developing countries. More emphasis needs to placed in the future on efforts to develop the productive base of the LDC economies and to address their continuing structural weaknesses.

Notes

1 The figures in this section are based on data from the United Nations Department of Economic and Social Affairs (DESA) Statistics Division. World Bank data show slightly lower real GDP growth rates for the LDCs as a group — 7 per cent in 2005 and 6.8 per cent in 2006. But these are still the highest growth rates for over 30 years.
2 The Brussels Programme of Action for LDCs was agreed at the end of the Third United Nations Conference for LDCs, which was held in Brussels, Belgium, in May 2001.
3 These estimates are based on sectoral value added as a share of total value added of the economy.
4 For a discussion of the causes of the current upswing in the commodity prices cycle, see IMF, 2008 and UNCTAD, 2008.
5 Under this classification, the "manufactures" category is larger than in the trade classification used elsewhere in this report, as processed foods such as sugar, cheese and vegetables are classified as resource-based manufactures (rather than as commodities).
6 This section draws on three different data sources to identify trends in capital flows: (a) World Bank Global Development Finance Online for the overall picture; (b) Organization for Economic Cooperation and Development (OECD)/Development Assistance Committee (DAC) for aid flows; and (c) UNCTAD for FDI flows. These are not wholly consistent, but together they can provide the best overall picture of what is happening.
7 *Aggregate net resource flows* are the sum of net resource flows on long-term debt (excluding IMF) plus net direct foreign investment, portfolio equity flows and official grants (excluding technical cooperation). Net flows (or net lending or net disbursements) are disbursements minus principal repayments. *Aggregate net transfers* are equal to aggregate net resource flows minus interest payments on long-term loans and foreign direct investment profits. (Source: World Bank, *Global Development Finance*, online, April 2008).
8 This section refers to assistance from DAC member countries and also from a number of non-DAC donors, including Hungary, Iceland, Republic of Korea, Poland, Slovakia, Thailand, Turkey and Arab countries, for which data are also recorded by DAC. There are other donors to LDCs, including China, which is also rapidly expanding its development cooperation programme. The "Beijing Action Plan" of November 2006 calls for a doubling of aid to Africa from 2006 and 2009. Unfortunately, data on aid from China are not published and is therefore excluded from the discussion in this section.
9 This excludes the forgiveness of ODA principal, which is not counted as it has already been recorded as an aid disbursement at an earlier point in time and its inclusion would thus involve double-counting.
10 This condition has been relaxed for Liberia.

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