Global Economy

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Lecture 4

Economic growth in least developed countries in the 21st century

- The aim – to show trends in and determinants of economic growth on the demand side and supply side in the group of LDCs

- The period of analysis: 2001-2017
- The data retrieved from the World Bank and OECD database

- Least developed countries are low-income countries which face severe structural impediments to sustainable development.

- They have low levels of human assets and are highly vulnerable to economic and environmental shocks.

- 47 LDCs (33 African LDCs, 9 Asian LDCs, 4 Pacific islands and Haiti)

List of Least Developed Countries (as of December 2018)

Country	Year of inclusion	Country	Year of inclusion
Afghanistan	1971	Malawi	1971
Angola	1994	Mali	1971
Bangladesh	1975	Mauritania	1986
Benin	1971	Mozambique	1988
Bhutan	1971	Myanmar	1987
Burkina Faso	1971	Nepal	1971
Burundi	1971	Niger	1971
Cambodia	1991	Rwanda	1971
Central African Republic	1975	São Tomé and Príncipe	1982
Chad	1971	Senegal	2000
Comoros	1977	Sierra Leone	1982
Democratic Republic of the Congo	1991	Solomon Islands	1991
Djibouti	1982	Somalia	1971
Eritrea	1994	South Sudan	2012
Ethiopia	1971	Sudan	1971
Gambia	1975	Timor-Leste	2003
Guinea	1971	Togo	1982
Guinea-Bissau	1981	Tuvalu	1986
Haiti	1971	Uganda	1971
Kiribati	1986	United Republic of Tanzania	1971
Lao People's Democratic Republic	1971	Vanuatu	1985
Lesotho	1971	Yemen	1971
Liberia	1990	Zambia	1991
Madagascar	1991		

- Countries are eligible to leave the LDC category if they meet the graduation thresholds of the criteria.
- The graduation thresholds must be met for any two of the three criteria (human assets index (HAI), economic vulnerability index (EVI) and per capita income) in two consecutive triennial reviews.
- Alternatively countries must satisfy income-only criterion: GNI per capita is at least twice the graduation threshold in two consecutive triennial reviews.

Human Assets Index (HAI)

- HAI is a composition of the following five indicators:

✓ under-five mortality rate,

✓ percentage of population undernourished,

✓ maternal mortality rate,

✓ gross secondary school enrolment ratio,

✓ adult literacy rate.

- Lower values of HAI represent weaker human asset development.

Economic Vulnerability Index (EVI)

- EVI is a composite index of

- ✓ population size,
- ✓ remoteness,
- ✓ merchandise export concentration,
- ✓ share of agriculture, hunting, forestry and fisheries in GDP,
- ✓ share of population living in low elevated coastal zones,
- ✓ instability of exports of goods and services,
- ✓ victims of natural disasters,
- ✓ instability of agricultural production.

- Higher values of EVI indicate higher vulnerability

- Since the establishing of the category of least developed countries in 1971, only five LDCs have graduated to developing country status:

✓ Botswana (in December 1994),

✓ Cabo Verde (December 2007),

✓ Maldives (January 2011),

✓ Samoa (January 2014),

✓ Equatorial Guinea (June 2017).

- At the 2018 review the thresholds are the following:
- the three-year average level of per capita GNI (Atlas method) US$ 1 230 or above,
- the level of human capital HAI at 66 or above, EVI at 32 or below,
- the income-only US$ 2 460

- **Vanuatu** will graduate by the end of 2020, **Angola** in 2021, **Bhutan** in 2023, **São Tomé and Príncipe** and **Solomon Islands** in 2024.

- In 2018, the income-only criterion was satisfied by **Tuvalu**, **Angola**, **Vanuatu**, **Kiribati**, and **Timor-Leste**.
- The countries, except Angola, met also the graduation threshold for the HAI.
- **São Tomé and Príncipe**, **Bangladesh**, and **Bhutan** satisfied the HAI and GNI per capita criteria.
- **Myanmar** met the graduation thresholds for the EVI and GNI per capita and **Nepal** for the EVI and HAI.

- Since the beginning of the twenty first century, several least developed countries have recorded rapid economic growth and made significant progress in economic development.

- At the same time, other LDCs have experienced negative or very low average growth rates and slightly improved their development indices.

The Fastest Growing Least Developed Countries

Country	**GDP growth 2001-2017**	**GDP p.c. growth, 2001-2017**	**GDP growth 2008-2017**	**GDP p.c. growth, 2008-2017**
Myanmar	**9.9%**	9.0%	**7.9%**	7.0%
Ethiopia	**9.1%**	6.2%	**10.1%**	7.3%
Rwanda	7.8%	5.1%	**7.4%**	4.7%
Cambodia	7.6%	5.9%	6.2%	4.6%
Bhutan	7.5%	5.3%	6.3%	4.6%
Mozambique	7.3%	4.2%	6.3%	3.2%
Lao PDR	7.3%	5.7%	**7.7%**	6.2%
Afghanistan*	7.1%	4.3%	6.6%	3.5%
Uganda	6.4%	2.9%	5.7%	2.2%
Zambia	6.3%	3.3%	6.0%	2.9%
Angola	6.3%	2.6%	3.6%	0.1%
Bangladesh	6.0%	4.6%	6.3%	5.1%

The Slowest Growing Least Developed Countries

Country	GDP growth 2001-2017	GDP p.c. growth, 2001-2017	GDP growth 2008-2017	GDP p.c. growth, 2008-2017
Yemen	**-0.2%**	-2.9%	**-3.0%**	-5.5%
CAR	0.1%	-1.2%	**-1.7%**	-2.6%
Haiti	1.2%	-0.3%	1.7%	0.3%
Kiribati	1.9%	-0.01%	2.3%	0.4%
Liberia	2.3%	-0.6%	**4.4%**	1.4%
Vanuatu	2.6%	0.2%	2.6%	0.3%
Comoros	2.7%	0.3%	3.1%	0.7%
Burundi	2.7%	-0.4%	2.7%	-0.5%
Madagascar	2.8%	-0.1%	2.5%	-0.3%
Gambia	3.2%	-0.02%	3.4%	0.2%
Guinea-Bissau	3.2%	0.8%	4.0%	1.5%

The Fastest Growing Least Developed Countries

On the demand side

- Domestic private consumption was the main source of growth in **Rwanda, Bangladesh, Afghanistan, Uganda** and **Angola** (consumption driven growth).
- Investment led growth in **Bhutan** and **Mozambique** (the biggest contribution of gross domestic investment to GDP).
- Exports of goods and services were an important driver of growth in **Cambodia** (export led growth).
- **Lao PDR** experienced non-consumption growth.

- In the years 2008-2017, Afghanistan, Mozambique, Rwanda sustained strong growth mainly because of foreign assistance.

- Mozambique’s economy boomed not only on official development assistance but also on large inflows of foreign direct investment.
- Cambodia has also attracted foreign direct investment.

- Remittances were an important source of development finance in Zambia and Bangladesh.

Country	**Remittances, (% of GDP),** 2008-2017	**ODA, (% of GDP),** 2008-2017	**FDI, (% of GDP),** 2008-2017
Afghanistan	1.4%	**31.4%**	0.5%
Angola	0.02%	0.3%	-0.9%
Bangladesh	**8.7%**	1.3%	1.2%
Bhutan	0.8%	6.6%	1.2%
Cambodia	5.1%	5.3%	**11.5%**
Ethiopia	1.5%	8.5%	2.5%
Lao PDR	1.2%	4.7%	5.8%
Mozambique	1.1%	**15.6%**	**23.7%**
Myanmar	1.8%	2.1%	4.0%
Rwanda	2.1%	**15.5%**	3.0%
Uganda	4.1%	8.0%	3.8%
Zambia	**10.8%**	4.9%	5.7%

On the supply side

- GDP has been generated mainly through the **services** sector in Bangladesh, Afghanistan, Mozambique, Rwanda, Lao PDR, and Cambodia.
- In 2017, **services** accounted for more than 50% of GDP in Bangladesh, Afghanistan, Mozambique, and Rwanda and nearly 50% in Lao PDR.
- **Services** generated more than 40% of GDP in Cambodia.
- **Services** slightly dominated over the **industry sector** in Myanmar, and the **industry sector** over the **services** in Bhutan.
- **Services** followed by **agriculture** generated GDP in Ethiopia.
- The **industry** sector was the main driver of growth in Angola.

- There is no single path to rapid economic growth. **Rwanda** recorded high economic growth due to sound economic policies, peace and political stability. Now, is one of the best performing countries in Africa.
- Sound macroeconomic policies and political stability were also conducive to economic growth in **Cambodia**.
- Government's interventionist policies enhanced **Ethiopia**'s economic development.
- In **Mozambique**, economic growth resulted from implementation of market-based economic policies and the improvement of investment framework.

- The **Angola**’s GDP growth has been mostly driven by the oil sector. Before 2008 the Angolan economy grew mainly because of high oil prices. After the outbreak of global crisis, economic growth in Angola has been adversely affected by decreasing oil revenues because of low export prices.

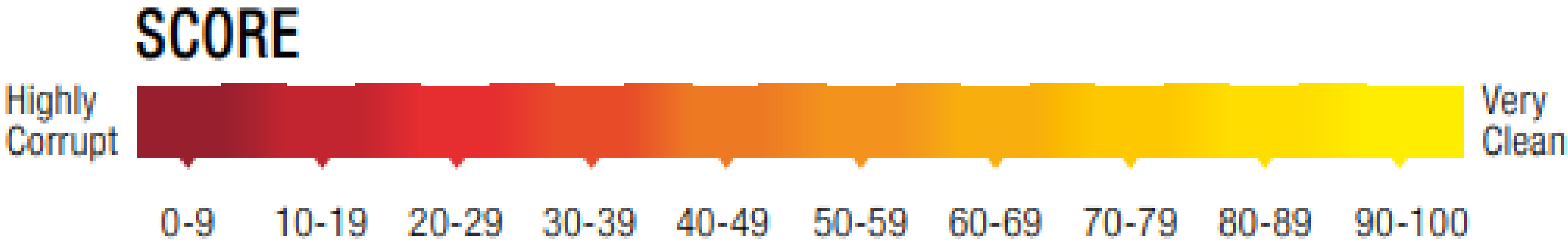
- In the years 2006-2015, the **Ethiopian** government implemented two national five-year plans to improve economic growth and reduce poverty. They prioritised agricultural and export-led industrialisation.

- In the fastest growing LDCs, GDP has been mostly generated through the services and industry sectors.
- **Bangladesh** has developed transport, energy, and information and communication technology to provide the basis for development of the textile and clothing industries.
- In **Lao PDR**, the basic contributors to GDP were wholesale and retail trade, hotels and restaurants, financial services and telecommunications.
- Transport, tourism and travel services have a great potential as drivers of **Myanmar**'s economic growth.
- **Bhutan**'s economy was dominated by hydropower industry and the building of new power projects.

- A few LDCs sustained strong growth mainly because of foreign assistance and in other countries remittances were a significant source of development finance.

- Resource reach LDCs recorded high inflows of foreign direct investment.

Corruption Perception Index



Ease of Doing Business

- Starting a Business
- Dealing with Construction Permits
- Getting Electricity
- Registering Property
- Getting Credit
- Protecting Minority Investors
- Paying Taxes
- Trading across Borders
- Enforcing Contracts
- Resolving Insolvency

Country	**Ease of Doing Business, 2019**		**Corruption Perception Index 2018**	
	Rank	**Score**	**Rank**	**Score**
Afghanistan	167/190	47.77	172/180	16
Angola	173	43.86	165	19
Bangladesh	176	41.97	149	26
Bhutan	81	66.08	**25**	**68**
Cambodia	138	54.80	161	20
Ethiopia	159	49.06	114	34
Lao PDR	154	51.26	132	29
Mozambique	135	55.53	158	23
Myanmar	171	44.72	132	29
Rwanda	**29**	**77.88**	**48**	**56**
Uganda	127	57.06	149	26
Zambia	155	50.44	105	35

Country	Ease of Doing Business, 2019		Corruption Perception Index 2018	
	Rank	**Score**	**Rank**	**Score**
Azerbaijan	**25**/190	**78.64**	152/180	25
China	46	73.64	87	39
France	32	77.29	**21**	**72**
India	77	67.23	78	41
Italy	51	72.56	53	52
Japan	39	75.65	18	73
Korea	**5**	**84.14**	45	57
Poland	33	76.95	36	60
Portugal	34	76.55	30	64
Spain	30	77.68	41	58
Turkey	43	74.33	78	41
Ukraine	71	68.25	120	32
Uzbekistan	76	67.40	158	23
US	**8**	**82.75**	**22**	**71**

The Slowest Growing Least Developed Countries

- **On the supply side**, the **services sector** contributed more than 50% to GDP in Kiribati, Vanuatu, Gambia, and Madagascar.
- **Services followed by the industry sector** have been generated GDP in Haiti and Guinea and **services followed by agriculture** in Liberia.
- GDP in Yemen has been generated through the **industry and services sectors** while in Burundi, Central African Republic, Comoros, and Guinea-Bissau by the **agriculture and services sectors**.

- Except Yemen the industry sector has been contributed less than 20% to GDP of the remaining countries.
- In the years 2001-2017, the labour productivity declined in all countries, except Vanuatu.
- Generally, the economies have been dominated by the informal sector, with numerous micro and small businesses that geared towards the local markets.
- In terms of employment, agriculture has been a major sector in most LDCs.

Employment by sector, 2000, 2015 (per cent of total employment)

Country	Agriculture		Industry		Services	
	2000	**2015**	**2000**	**2015**	**2000**	**2015**
Burundi	91.7	**91.1**	2.4	2.5	5.9	6.4
CAR	62.9	**63.5**	9.5	9.7	27.6	26.8
Comoros	65.4	**65.1**	9.7	9.6	24.9	25.2
Gambia	53.7	30.8	9.1	14.5	37.2	**54.7**
Guinea	74.8	**74.7**	6.3	5.6	18.9	19.7
Guinea-Bissau	60.7	50.1	9.7	12.1	29.5	37.8
Haiti	49.2	43.3	11.1	12.1	39.7	44.5
Liberia	48.9	44.8	10.4	11.3	40.7	43.9
Madagascar	74.2	**73.0**	10.1	9.1	15.7	17.9
Vanuatu	62.4	**62.2**	6.8	7.0	30.9	30.8
Yemen	41.2	32.4	14.4	17.5	44.5	**50.0**

- **On the demand side**, domestic private consumption has been the main source of growth in the slowest growing LDCs.
- The average share of household final consumption expenditure in GDP was more than 85% in all LDCs, except Vanuatu, and Yemen. In Liberia, the share was exceptionally high (more than 140%).
- **Consumption led growth**: CAR, Comoros, Haiti, Gambia, Guinea-Bissau, Liberia, and Yemen.

- The contribution of government final consumption expenditure to GDP was relatively high in Burundi (mixed growth)

- Export driven growth: Madagascar
- Non-consumption (investment led growth): Vanuatu
- The share of gross domestic investment in GDP was very low in Guinea-Bissau and Central African Republic

- Remittances from diaspora have been important sources of income in 5 countries.
- Least developed countries have benefited from ODA. In the years 2008-2017, the average share of ODA in GDP was bigger than 10% in 9 countries.
- The only country that has attracted foreign direct investment is Liberia.

Country	**Remittances, (% of GDP),** 2008-2017	**ODA, (% of GDP),** 2008-2017	**FDI, (% of GDP),** 2008-2017
Burundi	1.5%	**22.9%**	1.0%
CAR	n.a.	**19.5%**	1.8%
Comoros	**11.3%**	**11.3%**	0.9%
Gambia	**10.8%**	**14.4%**	3.1%
Guinea-Bissau	6.2%	**12.2%**	1.8%
Haiti	**23.6%**	**17.0%**	1.8%
Kiribati	**9.7%**	**19.4%**	0.02%
Liberia	**14.2%**	**66.9%**	**40.4%**
Madagascar	3.5%	5.9%	7.7%
Vanuatu	2.5%	**15.6%**	5.5%
Yemen	7.3%	2.9%	0.2%

Economic growth and development in the LDCs has been constrained by

- civil war (Central African Republic, Yemen),
- political instability (Burundi, Comoros, CAR, Guinea-Bissau, Haiti, Madagascar),
- vulnerability to natural disasters like fires (Comoros), extreme weather (Comoros, Haiti, Kiribati, and Vanuatu), and locust attacks on crops (Eritrea),
- shortage of skilled workers

Economic growth and development in the analysed LDCs has been constrained by

- electricity shortages,
- poor telecommunication infrastructure,
- underdeveloped financial system,
- limited access to credit and financial instruments,
- weak legal system,
- weak protection of property rights,
- strict foreign exchange controls and high interference of the state in the economy (Eritrea),
- military spending (Eritrea),
- remoteness from international markets (Kiribati, Vanuatu)

Country	Ease of Doing Business, 2019		Corruption Perception Index 2018	
	Rank	Score	Rank	Score
Burundi	168	47.41	170	17
CAR	183	36.90	149	26
Comoros	164	48.66	144	27
Gambia	149	51.72	93	37
Guinea-Bissau	175	42.85	172	16
Haiti	182	38.52	161	20
Kiribati	158	49.07	n.a.	n.a.
Liberia	174	43.51	120	32
Madagascar	161	48.89	152	25
Vanuatu	**94**	62.87	**64**	46
Yemen	187	32.41	176	14

- In the years 2001-2017, 11 LDCs had negative or low average GDP per capita growth rates.
- GDP in those countries has been primarily generated through services and agriculture sectors. Except Yemen, the industry sector has been contributed less than 20% to GDP.
- The poorest countries were highly dependent on agriculture which provided a living for the vast majority of their population.
- On the demand side, domestic private consumption was the main source of growth in the examined countries.

- The countries have been heavily dependent on foreign assistance.
- 9 least developed countries were classified as aid-dependent.
- Remittances were a significant source of finance in 5 of them.
- The countries, except one, has not attracted foreign direct investment.

- Economic growth in the LDCs has been mainly constrained by conflicts, political instability, recurrent climate shocks (drought, floods, earthquakes), weak institutions, pervasive corruption, poor governance, insecurity, and lack of basic infrastructure.

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- Economic growth
- Economic development
- Socio-economic development
- Sustainable development

Sustainable development

- New paradigm (pattern) an alternative to present models for society and economy.

- What is needed is development of new concepts that will mould industrial, social, and environmental interests into an integrated, harmonious system.

U Thant's Report – *Problems of the Human Environment* (1969)

Deterioration of human environment may be related to three basic causes:

accelerated population growth,

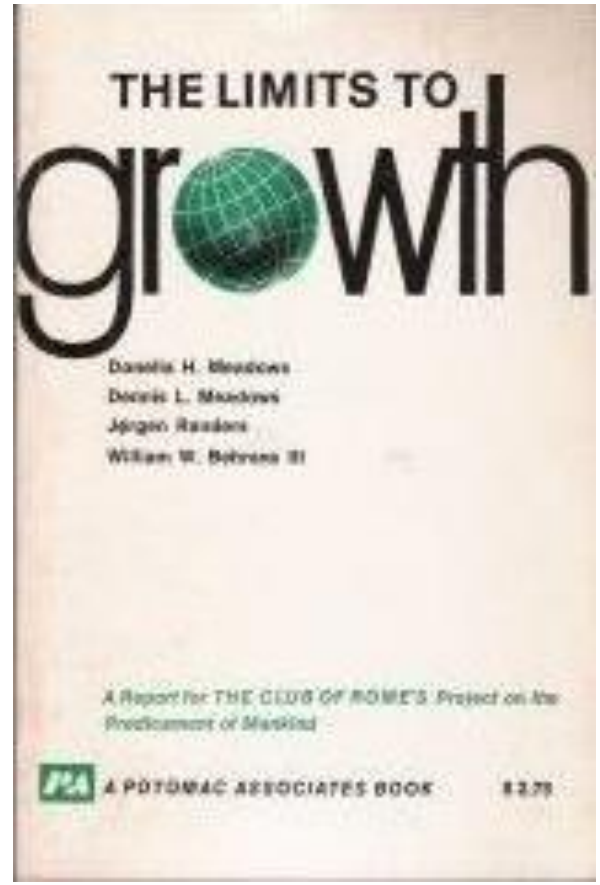
increased urbanization,

an expanded and efficient new technology, with their associated increase in demands for space, food and natural resources.

The Limits to Growth (1972) – the First Report of the Club of Rome

- Authors: Donella H. Meadows, Dennis L. Meadows, Jorgen Randers, William W. Behrens III.

- The book was published in 30 languages and sold over 30 million copies.



The Limits to Growth (1972) – the First Report of the Club of Rome

- Authors used computer modeling to predict the consequences of a rapidly growing world population and finite resource supplies.
- The purpose - to explore how exponential growth interacts with finite resources. A study of the future if present growth continues.
- Five variables: world population, industrialization, pollution, food production and resource depletion.
- Conclusions: Possibly within as little as 70 years, our social and economic system will collapse unless drastic changes are made very soon.

- 1972 – Stockholm Conference – Declaration on the Human Environment

- 1987 – Brundtland Commission – World Commission on Environment and Development: *Our Common Future*

- 1992 – Rio de Janeiro, Brazil – U.N. Conference on Environment & Development

- 2002 – Johanesbourg – Declaration on Sustainable Development

Report of the World Commission on Environment and Development: *Our Common Future* (Brundtland 1987)

Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs.

It contains within it two key concepts:

- the concept of ‘needs’, in particular the essential needs of the world’s poor, to which overriding priority should be given; and
- the idea of limitations imposed by the state of technology and social organization on the environment’s ability to meet present and future needs.

1992 United Nations Conference on Environment and Development

- The Rio conference was a significant milestone that set a new agenda for sustainable development.
- Human beings are at the center of concerns for sustainable development. They are entitled to a healthy and productive life in harmony with nature.
- The right to development must be fulfilled so as to equitably meet developmental and environmental needs of present and future generations.
- In order to achieve sustainable development, environmental protection shall constitute an integral part of the development process and cannot be considered in isolation from it.