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Slower economic growth adds to challenge of generating jobs in least developed countries

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Report says recent declines in exports and commodity prices are beginning to pose difficulties for globe's poorest nations

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Economic growth of 5 to 6 per cent per year – high by the standards of industrialized countries, but under the 7 per cent target deemed necessary to enable poor nations to make substantial reductions in poverty – is foreseen for least developed countries (LDCs) over the medium term, a new UNCTAD report says.

The **Least Developed Countries Report 2013**, subtitled **Growth with Employment for Inclusive and Sustainable Development**, was released today. Among the challenges of a decline in economic growth from its almost 8 per cent average during the "boom" years from 2002 to 2008 is how the world's 49 poorest nations will create sufficient employment for the 16 million new entrants into their collective workforce each year (see press release UNCTAD/PRESS/PR/2013/44).

Reduced demand for exports, and declining prices for the raw industrial materials and basic agricultural goods that many LDCs depend on for their exports, are the principal reasons for the cloudier prospects, the report says.

The strong growth in exports from LDCs of about 25 per cent in both 2010 and 2011 stalled to a mere 0.6 per cent in 2012, the report observes. This downward trend in international trade highlights the vulnerabilities of developing countries, and particularly LDCs given their export-led strategies, at a time of lacklustre growth in developed countries. As a result, the current account deficit for the LDCs as a group widened substantially, from US$10.5 billion in 2011 to $28.8 billion in 2012, and a deficit of similar magnitude is expected in 2013.

The recent slowdown in world trade will have further negative impacts on the outlook for the LDCs, the report cautions. While the demand for imported goods in developed countries has been weak at best, the LDCs have recently avoided a sharp deceleration in growth by relying more on domestic demand, and on South-South trade – that is, trade with other developing countries. Both will be necessary in the future, but the recent deceleration of economic growth in the large emerging economies means that there may be limited prospects for further LDC exports to these countries, the report says.

In addition to weaker demand for their exports, the LDCs have been faced with heightened volatility in commodity prices and capital flows. In particular, the international prices of many commodities have declined from their peaks of 2011, adversely affecting those LDCs that have high levels of commodity dependence. For example, international prices of sugar, cocoa beans and tea had come down from their highest levels, which they reached in 2011, falling by more than a quarter by mid-2013. Prices for cotton and Arabica coffee decreased by almost half.

International Monetary Fund projections suggest continued declines for prices of both oil and non-fuel primary commodities over the long term. In addition, the short-term outlook for commodity prices is highly uncertain, not only because of possible supply-side disruptions (such as in energy and food supplies), but because of demand uncertainties, the report notes.

Sources of external financing for LDCs have also been volatile recently, and less available than in the period to the end of 2010. Official development assistance (ODA) to the LDCs, in particular, declined both in 2011 and in 2012. This is the first time since 1997 that ODA to developing countries has declined for two consecutive years.

The prospect of tighter monetary policies in developed countries over the course of 2014 and 2015 will change the relative profitability of investments between developed and developing countries' assets, the report warns. Recent low interest rates in Europe and North America have encouraged investors to channel funds to LDCs, where rates have been higher. But an expected increase in developed-country rates will provide competition in the coming years, and can be expected to make short-term investing in developing countries less attractive. This may provoke a pull-out of short-term capital from these countries, and make it more difficult to finance current account deficits. LDCs with large current account deficits should start to prepare now for these future developments, the report warns.

As a result of less favourable external conditions, economic growth in the LDCs has been weaker by more than two percentage points over the past five years (2009–2013) than during the boom period (2002–2008). It has also been below the target rate of 7 per cent annual growth as set out in the Istanbul Programme of Action (IPoA) for the Least Developed Countries for the Decade 2011–2020. That target reflects the need of LDCs to "catch up" with others and to become middle-income countries. The 7 per cent target also takes into account the population growth in LDCs, which averages 2.3 per cent annually. Expanding populations require higher rates of economic growth to create new jobs and raise living standards.

The report documents the extent to which the LDCs' employment growth lagged behind their rapid GDP expansion during the 2000s (see press release UNCTAD/PRESS/PR/2013/44). Periods of relatively rapid GDP growth, such as that experienced in the past decade, have failed not only to provide jobs for new entrants to the labour force, but have also failed to clear a backlog of open and "disguised" unemployment that prevails in most LDCs. The report posits the question: What will happen to job creation now that economic growth has decelerated?

The special conditions of LDCs – structurally weak economies with high rates of poverty, accelerating urbanization, and rapidly growing populations – make it imperative that they create sufficient jobs to reduce poverty and avert any potential social and political tensions. The number of jobs they need to create just to absorb the new entrants to the labour market is around 16 million each year, the report says.

These are compelling reasons for a policy emphasis in LDCs on employment generation as a central development objective (see press release UNCTAD/PRESS/PR/2013/46). This challenge is increasingly being recognized by LDCs as an urgent matter, and as a matter to be included in the post-2015 development agenda. The report emphasizes that not all LDCs are rich in minerals and other natural resources. For many LDCs, the most valuable asset is the potential of their young and expanding populations. Engaging this resource in productive employment can ensure that growth is inclusive, durable, and leads to poverty reduction, the report contends.