

CHAPTER 4

AID FOR TRADE IN CHALLENGING CONTEXTS

Contributed by the Enhanced Integrated Framework (EIF) and the United Nations Development Programme (UNDP)¹

Abstract: *The least developed countries face the greatest challenges in realizing the full potential of economic diversification with all the benefits that it can bring for economic growth, development and poverty reduction. While trade flows remain vital for LDC economies, their share in world trade is still below 1%. LDC merchandise exports are highly concentrated in few products. Primary commodities account for over 60% of the LDC exports making these countries very vulnerable to the external shocks. These trends are even more pronounced in the LDCs which identified themselves as fragile under g7+ initiative. In those countries top three export products represent at least 40% of their merchandise exports.*

The Chapter provides an overview of the existing evidence on the linkages between export concentration and fragility. While acknowledging that there is no one size-fits-all solution, it highlights several options in addressing structural challenges of LDC economies. Building on the OECD Aid for Trade data, the Chapter points out that Aid for Trade flows to LDCs are highly concentrated among key recipients, key sectors, and key development partners. For the past five years, commitments have fluctuated, but disbursements have remained stable. The flows to g7+ LDCs have remained broadly stagnant for the past five years. Finding a better response in fragile contexts requires greater coherence between humanitarian, development and peacebuilding efforts. Remaining cognizant of local contexts, institutional strengthening, and statebuilding and peacebuilding efforts is key in designing future aid-for-trade programmes.

INTRODUCTION

The least developed countries (LDCs) have made tremendous progress in development over the last 30 years with an improvement in the Human Development Index of 51% since 1990, on average (UNDP, 2018). And yet, many challenges remain because progress has not been even across or within countries: more than 300 million people in the LDCs live in extreme poverty, and 237 million are undernourished (OHRLLS, 2018).

The Istanbul Programme of Action for the LDCs (IPOA) 2011-2020 defines specific milestones in the path of these countries towards the realization of the Sustainable Development Goals (SDGs), including some important trade-related objectives. The IPOA foresees in particular that half of the LDCs would meet the graduation criteria by 2020. To date, five countries have transitioned out of LDC status since 1971 when the category was established, and Vanuatu and Angola are scheduled to do so in 2020-2021. Ten additional countries are at different stages of meeting the graduation thresholds,² which points to a heightened pace of graduation over the past several years.

Decisions on graduation from LDC status are made by the UN General Assembly based on recommendations by the Committee for Development Policy (CDP) endorsed by the Social and Economic Council (ECOSOC). Every three years, the CPD holds triennial reviews of the LDC category to advise on the inclusion of countries into and out of graduation from the LDC list. The review is undertaken based on three criteria: Gross National Income (GNI) per capita, the Human Assets Index (HAI) and the Economic Vulnerability Index (EVI). A country that meets two of the three criteria at two consecutive triennial reviews of the CDP is considered for graduation. Alternatively, a country may be considered for graduation if its income per capita is double the income threshold. As of to date, 35 LDCs are yet to meet at least two of the three graduation criteria before they can be considered for graduation.

More broadly, graduation from LDC status requires triggering and sustaining a process of structural transformation to allow these countries to generate growth that is pro-poor and environmentally sustainable. Economic and export diversification, value addition in exports and upgrading in value chains is generally associated with economic transformation (McKechnie, A. et. al., 2018). While this process is essentially nationally driven, the international community can assist by creating an enabling environment for the integration of the LDCs into the world economy, such as through preferential market access schemes and the provision of development cooperation, such as through aid-for-trade programmes, that helps lift constraints in the LDCs.

This chapter reviews aid-for-trade flows to the LDCs and makes recommendations to enhance aid for trade's effectiveness as a tool to support economic diversification in the LDCs. The chapter discusses the special circumstances of countries affected by fragility and conflict and how aid for trade can be more effective in responding to their needs.

This focus echoes the call of a group of LDCs in accession, which during the 11th Session of the WTO Ministerial Conference (MC11) held in 2017 in Buenos Aires, Argentina, issued a Declaration calling attention to the challenges of fragility and conflict for development, security and peace. They underscored the importance of international trade for economic growth, employment and development and the need to enhance cooperation to facilitate the effective participation of these countries in the multilateral trading system (WTO, 2017).

This chapter is structured as follows: Section I discusses stylized features of the LDCs' economies to underscore that economic and export diversification represents a priority for development and poverty reduction in the LDCs. This Section further focuses on the particular circumstances of the g7+ LDCs – a group of self-designated countries that are or have been affected by fragility and conflict – to underline the importance of economic and export diversification in promoting stability and peace in such contexts. Section II reviews the aid-for-trade priorities of LDCs and the g7+ LDCs for economic diversification and how aid for trade is responding to these. This section discusses support to the economic foundations of the g7+ LDCs and the complexity of supporting economic diversification in fragile contexts. Section III concludes.

THE IMPERATIVE OF ECONOMIC DIVERSIFICATION IN THE LDCs

“Trade is an engine of economic growth in the development process and is essential to increasing productivity that stimulates export-led economic growth”. – Guinea, OECD/WTO aid-for-trade monitoring exercise (2019).

Development and economic diversification in the LDCs

Economic development is associated with structural transformation, which can be defined as the shift of resources from low to higher productivity sectors as well as improvements in productivity within sectors (McMillan, M. et. al., 2017). Renewed interest in structural transformation is underpinned by recent growth experiences in developing countries, particularly some LDCs in Africa, which have failed to create broad based economic growth, employment and poverty reduction. This has focused policy attention to the pattern or quality of growth.

Theory and evidence indicate that structural transformation at early stages of development involves economic and trade diversification (Papageorgiou, C., et. al., 2012). While some LDCs have over time managed to change the structure of their production and export base, the process has been uneven across the LDCs and, generally, the pace and depth of change has remained below that of other developing countries.

Agriculture remains a major economic sector for the LDCs. The sector represents 22% of GDP value added in the LDCs against 8.5% only in other developing countries (UNCTAD, 2018). Moreover, the rate at which agriculture sheds labour in the LDCs is significantly slower than in other developing countries: between 2000 and 2017, the average employment share of agriculture fell by 73% in other developing countries but only by 17% in the LDCs (see Table 4.A1 in the Annex). On the other hand, agriculture labour productivity in the LDCs is only a fraction of that of other developing countries (18.7% between 2011 and 2013), and the gap is widening, which explains the divergent trend in income levels (UNCTAD, 2015).

“Agriculture is the main employer and source of income for the country which also contributes to feeding the population. There is a need to support this field to guarantee food supplies.” – Yemen, OECD/WTO aid-for-trade monitoring exercise (2019).

Box 4.1. Boosting export diversification in Togo

Agriculture remains essential for greater value addition of the Togolese economy, accounting for 40% of the GDP, while employing over half of the population. With the mining sector still pronounced in the share of goods exports, increasingly, Togo is becoming a services hub due to air and transport infrastructure.

Togolese exports are concentrated in 10 to 15 key products. The progress on export diversification is marked by two products: palm oil and oilseeds (soybeans). While the macroeconomic impact remains limited, these two sectors have significant potential for poverty reduction.

Both the private sector and development partners are playing an important role in supporting palm oil and soybean value chain development. The Togolese palm oil sector received a USD 65 million investment from Kalyan Agrovet Investments for the construction of a palm oil processing plant. With a USD 3 million of EIF investments, soybean farmers have doubled soybean production in 2018 and improved their marketing capacities, which has been identified as a problem for 84% of producers according to a recent survey.

Source: Adapted from the DTIS Update of Togo (2017).

The LDCs represent 13% of the world population but less than 1% of world trade. The participation of the LDCs in world trade remains marginal, and recently, it fell below the 1% threshold. Moreover, three LDCs – Angola, Bangladesh and Myanmar – account for over half of the LDC share of merchandise exports. The top ten LDC exporters of commercial services account for over 70% of the group's services receipt (WTO, 2018). These figures point to very uneven patterns of participation of the LDCs in world trade.

The composition of LDC exports vary significantly across countries. Fuels and minerals are the main merchandise exports of the LDCs in Africa (47%), while Asian LDC exports are largely made of manufactures (72%). The Small Islands LDCs export mainly food and agriculture products (82%) (Table 4.A2 in the Annex). There are no marked differences in the composition of imports of the LDCs with manufactured goods accounting for more than two thirds of imports (Table 4.A3 in the Annex).

The diverse composition of LDC exports reflects different paths, pace of economic diversification, and structural transformation among these countries (UNCTAD, 2014). For instance, productivity gains have doubled in Asian LDCs that export manufacture, compared with African LDCs, which export mainly fuels and mineral commodities. Kucera et Jiang (2018) acknowledge the importance of manufacturing in the transition from agriculture employment. UNCTAD notes that the largest productivity gains have been achieved through the shift of resources from agriculture to services. However, additional employment in the latter sector has seen a greater increase in the informal economy with lower productivity overall than in manufactures, thus failing to drive strong economy-wide productivity improvement and growth. At the same time, both Guerrieri and Meliciani (2005) and Andreoni and Gomez (2012) provide evidence of new opportunities resulting from complementarities between services and manufacturing, particularly for ICT-intensive services and knowledge-intensive manufacturing.

Empirical analysis indicates that the complexity of production and exports matters for economic growth (McMillan et. al. 2017) and that diversification is path dependent. The Hausmann et. al. (2007) product space analysis suggests that countries may diversify their economies and exports building upon existing competencies and productive capacities. On the other hand, Rodrick's (2013) work on unconditional convergence suggests that labour productivity in manufacturing activities across countries will converge regardless of country specific characteristics, such as policies, institutions, etc. This would imply that building productive capacity in manufacturing would be particularly valuable for improving the future quality of production and exports and converging towards high-income levels.

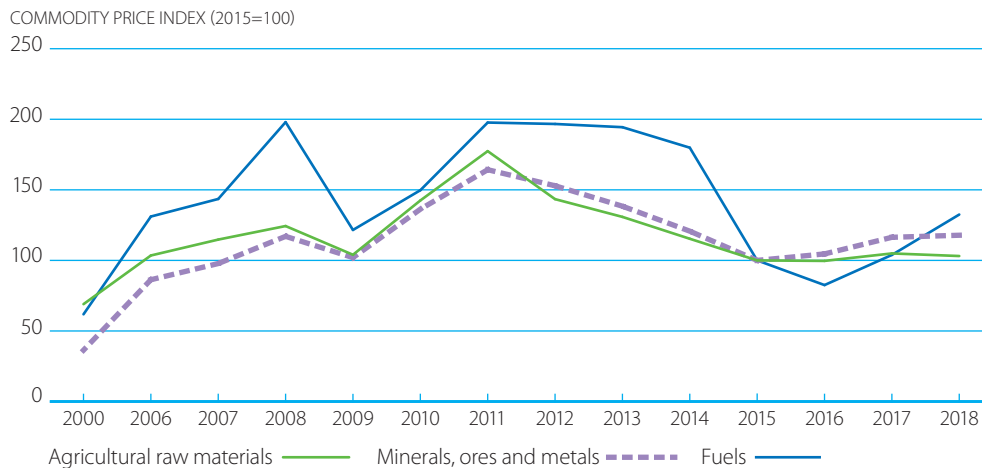
Mishra, S. et. al. (2011) explore whether diversification of services exports and particularly their sophistication can be a driver of economic growth similar to manufacturing. Their results suggest that indeed, the sophistication of services exports is associated with high growth, and that results hold after controlling for the size of the domestic services sector and goods sophistication. Moreover, their results hold for low income countries, which leads them to suggest that high quality services may provide a path for economic and export diversification for poor countries.

Exports by the LDCs of commercial services are increasing at a fast pace, but they remain negligible. Asian LDCs saw exports of commercial services increase at an annual rate of 8.5% between 2009 and 2016. The growth rate for Small Islands LDCs (6.9%), Haiti (5.4%) and African LDCs (11.1%) is also high (UNCTADstats 2019).

Merchandise trade flows in the LDCs tend to be volatile due to the composition of exports and their high degree of concentration. Sixty-four per cent (64%) of LDC exports are made of primary commodities subject to a relatively high price volatility (Figure 4.1). In 2015, for example, the price of oil fell by 47%, adding to an initial drop of 7.5% in 2014 (Box 4.2). The prices of other primary commodities, such as minerals, ore and metals, and agriculture raw materials also fell, thus eroding the economic growth of the LDCs that year with real GDP growth estimated at 3.5%, the lowest since 1994 (UNCTAD 2016). On the other hand, high commodity prices that lead to exchange rate appreciation undermine the competitiveness of other sectors and economic and export diversification.

“The Chadian economy is mainly based on cash crops (especially cotton) and extractive industries (mining and oil). The strong economic growth - 7.4% between 2003 and 2015 - was mainly due to the use of oil resources. The country is extremely vulnerable to the external shocks including fluctuation of commodity prices. To diversify its economy, the country will rely on sectors with high export potential including leather, sesame and gum arabic identified in the DTIS Update of Chad. Improving organization of those sectors will contribute to greater economies of scale thereby helping with greater integration into the global value chains.” – Chad, OECD/WTO aid-for-trade monitoring exercise (2019).

Figure 4.1. Commodity price index (2015=100)



Box 4.2. Export diversification in Chad: The promise of gum arabic

The extractive sector – mainly oil – is the main driver of Chad’s economy. However, efforts towards economic diversification have turned Chad into a significant player in the world trade of gum arabic – an additive contained in fizzy drinks, food and cosmetics: Chad is among the top three world exporters. The Chadian market is dominated by two types of gum arabic: hard, so-called Kitir, and friable, which sells for one third of Kitir (IRAM 2013).

Chad exported over 13,000 tons of crude gum arabic between 2014 and 2016 through N’Djamena airport or Douala port in Cameroon (UNCTAD 2018).

Working together with the EIF, UNIDO, UNDP and ITC, Chad has made considerable progress in moving up the gum arabic value chain. Today, a newly developed marketing label – “Cristal of Chad” – is reaching new export markets. According to ITC (2017), the volume of exports is expected to double in the next five years with India being among top target markets.

Replanting acacia trees has proven to be essential to ensure the sustainability of resources of gum arabic, thereby preventing future environmental risks.

Source: Adapted from Chad’s OECD/WTO aid-for-trade monitoring exercise (2019) questionnaire, ITC (2017), UNCTAD (2018) and IRAM (2013)..

Economic and export diversification would help the LDCs buffer the effects of external shocks. Koren, M. et. al. (2007) note that economic diversification can increase the resilience of low income countries to external shocks in particular by moving away from sectors that are highly volatile and correlated, such as mining and agriculture. Papageorgiou, C. et. al. (2012) further make the point that export diversification is associated with lower terms-of-trade volatility and that market diversification also builds resilience against external shocks.

Infrastructure services including reliable electricity and transport are key enablers in supporting economic diversification and trade (Hoeffler, A., 1999). Unreliable and poor infrastructure increases costs to private enterprises, hampering the development of the private sector.

“The country suffers from lack of infrastructure to support the production and marketing of goods and services, difficulties of ensuring the connectivity of different entities as well as the deficit in the supply of energy.” – Democratic Republic of the Congo (DRC), OECD/ WTO aid-for-trade monitoring exercise (2019).

Inadequate access to electricity for productive activities remains a barrier to economic diversification and structural transformation in the LDCs. Despite significant progress in access to energy (45% of the population for the LDCs on average), it remains significantly below the level of access in other developing countries (92%) (Table 4.A5 in the Annex). Moreover, two thirds of energy consumption in the LDCs consists of residential use, mostly from traditional biomass sources, such as charcoal and fuelwood (UNCTAD, 2017), alluding to the limited use of modern electricity for productive economic activities in these countries.

In Africa, power generation capacity is low, and part of the existing capacity is unavailable due to poor maintenance. Emergency or self-generation of electricity through diesel plants poses a heavy burden on the economy, estimated at 1% of GDP (McKechnie, A. et. al., 2018).

Transport infrastructure is another significant constraint for the LDCs. The median road density is 2,147 km per million people in the LDCs, compared to 3,446 km per million people in 58 developing countries (UNCTAD, 2017). In addition, only 22% of the roads in the LDCs are paved.

The Logistics Performance Index (LPI) provides a summary measure of the efficiency of the logistics sector that allows goods to move across borders based on the perception of international operators in the sector. The index provides an assessment of six components, including trade and transport infrastructure and the efficiency of customs and border clearance. The LDC average ranking in the Aggregated LPI³ is 128, i.e., within the fourth lowest quintile among 167 countries, which indicates that the connectivity of LDC economies is limited.

On the other hand, the LDCs have made major progress in relation to Information and Communication Technologies (ICT). Overall, the LDCs have significantly increased both access and affordability to the internet. According to ITU (2018), the LDCs are on course to reach averages of 97% mobile broadband coverage of their population and achieve internet prices of less than 5% of monthly GNI per capita by 2020. On the other hand, only 1 in 4 persons in the LDCs will be using the internet due to lack of necessary skills.

Economic governance institutions act as enablers to economic diversification and structural transformation.

A good investment climate provides opportunities and incentives for firms to invest productively, create jobs and expand, therefore promoting economic growth and poverty reduction (Sinha, S. et al., 2013).

Using the World Bank's Ease of Doing Business rankings as an indicator of the quality of the business environment shows that the LDC average stands at 147 (out of 190), indicating space for overall improvements. The rankings, however, vary across the LDCs. Moreover, Afghanistan, Djibouti, Rwanda and Togo are among the top 10 reformers in the 2019 Doing Business survey, suggesting that there is increasing awareness about the importance of reform and that the situation is dynamic.

The discussion above underlines the importance of economic and export diversification for the LDCs to support sustained economic growth. Shifting resources from low-productivity agriculture towards activities of higher productivity within agriculture and in services and manufacturing is essential for economic development that is more inclusive and sustainable. Moreover, the production of high-quality products and services would be associated with higher economic growth and, in the case of manufacturing, allow for unconditional convergence towards higher income levels. Economic and export diversification would buffer the LDCs from the volatility of terms of trade, thus enhancing growth stability. Evidence by Papageorgiou, C., et. al. (2012) on country experiences suggests that effective policy and reforms to support economic diversification should be implemented in 'waves', adapting to the changing external environment and the evolving country conditions.

The process of economic diversification and structural transformation requires productive investments in the LDCs, both public and private. Mechanisms to enhance domestic resource mobilization are therefore important in this context. Reforms of the business environment would be essential for mobilizing private domestic and foreign investment. Foreign direct investment (FDI) can help linking the LDCs to regional and global value chains, thereby creating opportunities for economic diversification.

In addition to broad policy fundamentals, more targeted policy efforts are necessary (UNCTAD 2014 and McMillan, M., et. al., 2017), and the international community can play a supportive role in this context. The development of human capital and skills, especially among women and youth, is necessary to allow them to participate in emerging economic opportunities. ICT skills in particular are essential for taking part in the emerging digital economy.

Different chapters in this volume discuss in detail policies and strategies to support economic diversification in developing countries, including the LDCs.

Economic diversification in fragile and conflict-affected contexts

During MC11, several LDCs in the accession process to the WTO reiterated their commitment to the reform process, underpinning accession while calling for enhanced cooperation to facilitate their effective participation in the multi-lateral trading system.

They are all members of the g7+, which includes the LDCs and other developing countries self-designated as fragile and conflict-affected. They work with development partners to improve the effectiveness of Official Development Assistance (ODA) in fragile contexts. Their commitments were captured in the New Deal of Engagement in Fragile States adopted at the High-Level Forum on Aid Effectiveness in Busan, Republic of Korea, in 2011.

This Section discusses why it is important for fragile and conflict-affected countries to diversify their economies beyond the benefits concerning structural transformation for the LDCs mentioned above.

Box 4.3. The New Deal of Engagement in Fragile States and the Peacebuilding and Statebuilding Goals (PSGs)

The New Deal of Engagement encapsulates the commitment of countries affected by fragility and conflict, led by the g7+ group, development partners and civil society, to improve development policy and practice in fragile contexts. Partners to the New Deal committed to working towards one plan, under one shared vision and a commitment to transparency, accountability, predictability of financing and shared risk management and to strengthening and using country systems.

The g7+ proposes a fragility spectrum of five stages, starting at situations of crisis moving towards rebuilding and reform, transition, transformation and resilience that cut across five PSGs, which the New Deal of Engagement in Fragile States seeks to prioritize:

- PSG1-Legitimate politics: fostering inclusive political settlement and conflict resolution;
- PSG2-Security: establishing and strengthening people's security;
- PSG3-Justice: addressing injustices and increasing people's access to justice;
- PSG4-Economic foundations: generating employment and livelihoods; and
- PSG5-Revenue and services: managing revenue and building capacity for accountable and fair service delivery.

The g7+ group is composed of 20 countries* that share experiences and support each other and advocate for country-led and country-owned processes in addressing fragility and conflict.

* The g7+ countries are: Afghanistan, Burundi, Central African Republic (CAR), Chad, Comoros, Ivory Coast, DRC, Guinea, Guinea-Bissau, Haiti, Liberia, Papua New Guinea, São Tomé and Príncipe, Sierra Leone, Solomon Islands, Somalia, South Sudan, Timor-Leste, Togo and Yemen.

Source: g7+ 2019 <http://g7plus.org/>, <https://www.pbsbdialogue.org/en/new-deal/about-new-deal/>.

Fragility and conflict

The g7+ countries partners in the New Deal, define fragility as “a period of time during nationhood when sustainable socio-economic development requires greater emphasis on complementary peacebuilding and statebuilding activities.” (g7+ 2013). The Group proposes a spectrum of fragility of five stages, from crisis associated mainly with conflict, to resilience (Box 4.3).

The adoption of the SDGs has reinforced the principles of the New Deal through the recognition that peaceful and inclusive societies, access to justice for all, and effective, accountable, and inclusive institutions at all levels encapsulated in SDG16, are objectives of universal application and essential for advancing sustainable development.

Box 4.4. Channels of trade impact in political stability and conflict

The **opportunity cost** mechanism refers to changes in real income and how these may increase or reduce the relative value of engaging in violent activities. Declines in export prices, increases in import prices and declines in external demand that reduce real incomes and thus income foregone by choosing to engage in violence increase the risk of conflict.

The **rapacity effect** refers to the incentive to fight for the control of valuable resources. This effect is particularly salient for point-source commodities when prices increase.

The **resource effect** refers to the mechanism through which increases in the price of commodities under the control (taxation) of parties to the conflict (e.g., government or rebel groups) can finance the means to suppress or enhance fighting by either side to the conflict.

Source: Cali, M. (2015). *Trading Away from Conflict. Using trade to increase resilience in fragile states*, World Bank, Washington, D.C.

Economic diversification in fragile and conflict-affected contexts

The previous Section underlined the importance of economic diversification in the LDCs for structural transformation and development. In the context of fragile and conflict-affected contexts, economic diversification could also be important for peace: Research and empirical analysis suggest that economic specialization in certain products and the volatility associated to trade flows under certain circumstances may increase the risk of violence and conflict.

This Section explains the mechanisms based on a framework provided by Cali, M. (2015) building on the work of Collier, P., A. Hoeffler et. al. (2004) regarding the economic incentives of actors to resort to violence and conflict. Cali describes three mechanisms through which changes in trade flows can influence political stability and conflict (Box 4.4).

The framework further makes a distinction between “point source” commodities, such as oil and minerals, which are very valuable, do not create significant employment and can be easily controlled, and “diffused commodities”, notably agriculture, which are labour intensive and more difficult to control though may be important for funding of armed groups controlling local areas (through taxation). Higher prices of point source commodities increase incentives to fight for their control (rapacity effect). An increase in the price of diffused commodities would increase the income of local producers and thus increase the opportunity cost to engage in violence, thus reducing the risk of conflict. A fall in the price of diffused commodities would have the opposite effect, i.e., increasing the risks of conflict (opportunity cost effect), though it could make it easier for armed groups to finance their activities (resource effect), thus increasing the risk of conflict or its duration.

Cali’s cross-country analysis provides stronger evidence for the rapacity effect, indicating that swings in commodity prices affect the probability of conflict by increasing the competition for point source commodities that experience rising prices. An analysis by UNCTAD regarding the relationship between international trade and civil conflict similarly suggests that certain export commodities tend to have a stronger influence on conflict than others. This would be the case of oil and gas and labour-intensive industries, for which an illicit and lucrative trade exists (UNCTAD, 2004), because trade in such commodities can finance conflict (mainly through financing of armed groups) (resource effect).

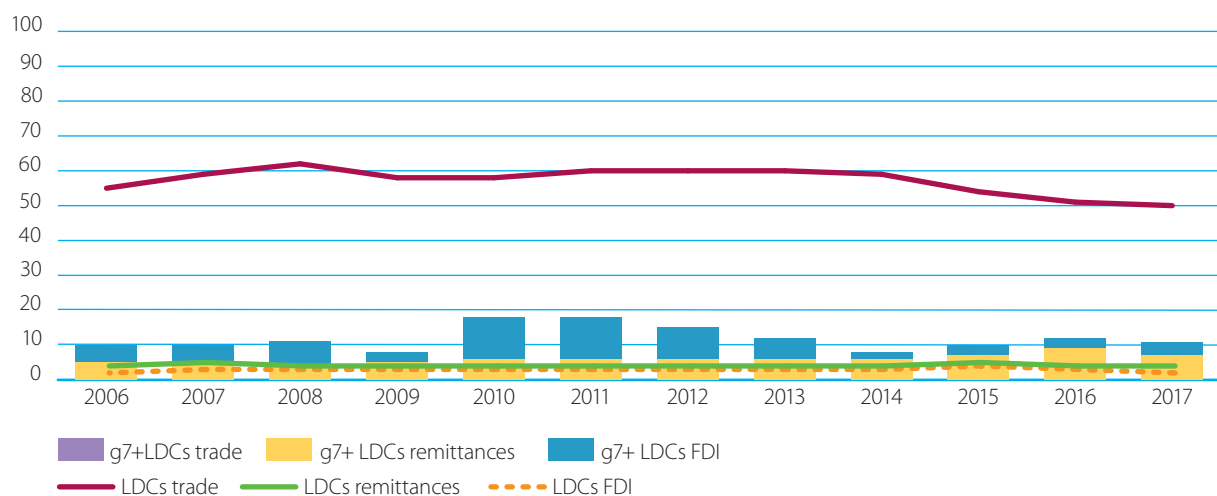
Another strand of research has emphasized the linkages between economic specialization and export concentration in primary commodities and the quality of institutions. Fearon, J. (2005), makes the argument that oil revenues create less incentives to build administrative competencies and control over the national territory in oil-dependent countries and that it is the relatively weak state institutions compared to countries at similar per capita income levels that make countries vulnerable to conflict. His evidence suggests that the same argument can be made about other primary commodity exports, where the state revenue depends on their taxation, on average, though the evidence is weaker than for crude oil. In either case, the prize of controlling a valuable resource provides incentives to engage in violence and conflict (rapacity effect).

Other research has focused on the implications of the volatility of revenue as the underlying factor leading to conflict. Guillaumont, P. et. al. (2005) suggest that it is the instability associated with external shocks that matter for conflict as opposed to the specialization in particular commodities *per se*. Building on work by Collier, P., and A. Hoeffler, (2004) on the linkages between primary commodities and conflict, Guillaumont, P. et. al. (2005) find that “when instability of exports, weighted by the openness rate, is introduced in the Collier-Hoeffler conflict occurrence model, not only the coefficient of determination increases significantly, but the share of primary commodities in exports also becomes insignificant. Guillaumont, P., (2007) further argues that “policy is weakened by structural instability”; for instance, through pressure on public debt, the quality and rate of investments, etc., implying that over time, instability affects the ability of countries to respond to shocks through adequate policies.

Cali argues that trade flows in fragile countries are ‘different’, because they are i) larger than other external flows; and ii) particularly volatile, partly due to their concentration in primary commodities. Both factors would amplify the impact of changes in trade flows in fragile contexts. Trade flows in the g7+ LDCs seem to reflect these conditions.

Using the LDC Group as a comparator, Figure 4.2 shows that the relative importance of trade for the g7+ LDCs is higher, not falling below 70% of external finance over the past ten years. Figure 4.3 presents the export concentration index for the g7+ LDCs and the LDCs. The Figure indicates that the export concentration of all g7+ LDCs is overall higher than the average for the LDCs and that, whereas the LDCs have reduced the level of concentration of their exports since 2006 on average, the export concentration of the g7+ LDCs has not significantly changed over time, with the exception of Yemen. Table 4.A5 in the Annex presents the top three exports of the g7+ LDCs. These represent at least 40% of total merchandise exports for all these countries, reaching 99% for South Sudan. Finally, Figure 4.1 (above) shows the annual variation in the commodities price index. It shows that over the period from 2006 to 2017, the price of fuels has been particularly erratic. The exposure of g7+ LDCs to trade flows and their volatility suggests that changes in trade flows can have particularly destabilizing effects in these countries.

Figure 4.2. Trade, remittances and FDI flows to the LDCs and the g7+ LDCs, 2006-2017



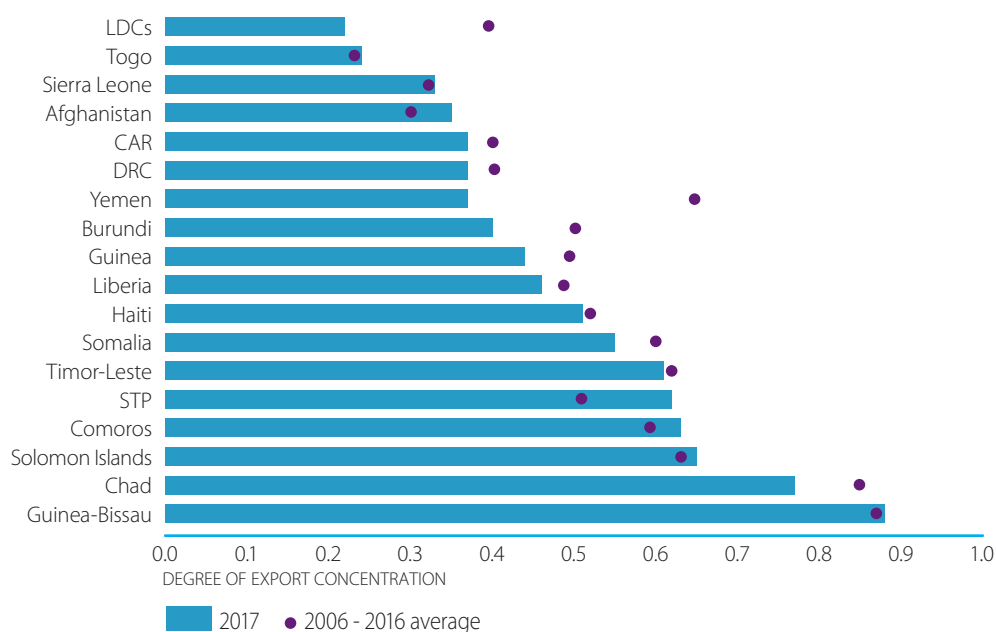
Source: World Bank (2019, 2019a, 2019b), (accessed February 2019).

StatLink  <http://dx.doi.org/10.1787/888933953261>

The destabilizing effects associated with the volatility of export revenue can be buffered against through different mechanisms, including stabilization funds that would allow smoothing investment and consumption in periods of low prices. To reduce the incentive to capture the control of the valuable resource, such as oil or other point source commodities, efforts should be directed to enhancing accountability and transparency around natural resource management.

A complementary, more structural response would consist of diversifying production and exports away from primary commodities – particularly agriculture and mining – so as to reduce the *exposure* to risks associated with trade flow fluctuations, thus building resilience to external shocks (Koren, M., and S. Tenreyro 2007 and Papageorgiou 2012).

However, economic specialization in natural resources does not doom countries to conflict, as the experience of resource-rich countries such as Botswana, Chile and others would suggest. Neither would economic diversification be enough in itself to eliminate the risk of conflict. Violence and conflict result from the interaction of a number of socio-economic, institutional, political and other factors of a contextual nature that mediate how particular events, including changes in trade flows, may influence violence and conflict.

Figure 4.3. Export concentration in the g7+ LDCs

Note: Higher index values denote higher concentration of exports in a few products.

Source: UNCTADstat database (accessed February 2019).

StatLink  <http://dx.doi.org/10.1787/888933953280>

Inequality – especially horizontal inequality – and exclusion can create a fertile ground upon which to build grievances that undermine social cohesion and lead to violence (United Nations/World Bank, 2018). Horizontal inequalities refer to uneven access to opportunities; resources such as land and other natural resources; and group-specific differences in standards of living, etc., which can create feelings of frustration and dissatisfaction, leading to group mobilization and violence (Stewart, F., 2008).

The existence of high unemployment or underemployment, particularly of youth, has been associated with a higher risk of conflict. The lack of economic opportunities and underlying economic and political barriers to youth participation in society may create a sense of alienation and make youth vulnerable to mobilization in violence to secure a livelihood (Stewart, F., 2008). Economic diversification may reduce the opportunity cost of resorting to violence by increasing employment opportunities in alternative sectors, including for youth, further discussed in Chapter 8.

Inclusion, on the other hand, helps prevent conflict, stop it and avoid its escalation or recurrence (Paffenholz et. al., 2017). Creating space for the economic, social and political participation of youth and women could further contribute to greater stability (United Nations/World Bank, 2018).

Export revenues constitute a major source of external finance to the g7+ LDCs, and the concentration of their exports in very few products of relatively high volatility make them vulnerable to external shocks. The composition of exports in certain valuable commodities may provide incentives to fight for, as well as undermine state institutions and thus the quality of public policies, including to promote a good business environment for the development of the private sector and to promote economic diversification. Whether instability arising from fluctuations in trade flows translates into conflict depends, however, on contextual factors. Policies that promote inclusion and reduce inequality would enhance the resilience of countries and societies to the risk of conflict.

AID FOR TRADE TO SUPPORT ECONOMIC DIVERSIFICATION IN THE LDCs

“The capacity of Chad to expand its production of goods and services is fundamental to strengthening both domestic and international trade with all the benefits that this can bring for boosting public revenues and job creation. Aid for trade plays a vital role in strengthening human capital, institutions and infrastructure and supporting the private sector in order to achieve the objectives of sustainable development.

– H.E. Mahamat Hamid Koua, Minister of Oil and Energy on behalf of the Minister of Mining, Trade and Industrial Development, and Promotion of the Private Sector

Aid for Trade

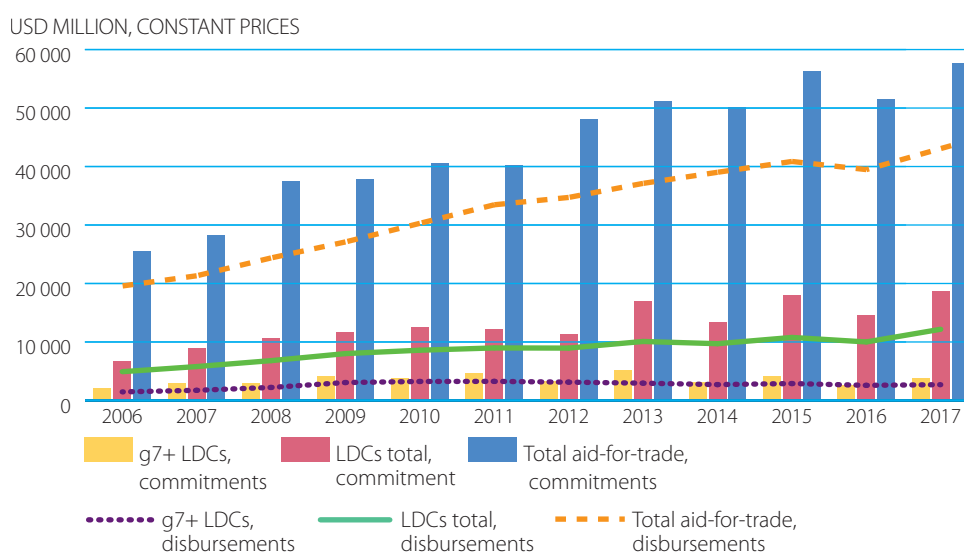
The international community has been assisting developing countries’ and the LDCs’ own efforts towards economic diversification and structural transformation through development programmes, including aid for trade. Since 2006, over USD 400 billion of ODA has been disbursed to build trade capacity in developing countries and the LDCs.

This Section reviews aid-for-trade flows to the LDCs and the g7+ LDCs seen from the prism of economic diversification.

“As a key priority for Comoros, further efforts on economic diversification aim at broadening the export base of three main export products, meeting the domestic demand, while targeting regional markets”. – Comoros, OECD/WTO aid-for-trade monitoring exercise (2019).

The LDCs account for 27% of total aid for trade. They are the second largest aid-for-trade recipients, 12% behind lower-middle income countries. aid for trade to the LDCs follows the same pattern as total aid for trade: for the past five years, commitments have fluctuated, but disbursements have remained stable. Commitments to the LDCs increased by 28% in 2017, after a fall in 2016 (Figure 4. 4). The LDCs in Africa account for 63% of aid for trade to the LDCs since 2006. The g7+ LDCs represent close to a quarter of total aid for trade to the LDCs, with flows remaining broadly stable since 2009.

Figure 4.4. Aid-for-trade flows to the LDCs and the g7+ LDCs, average 2006-2017



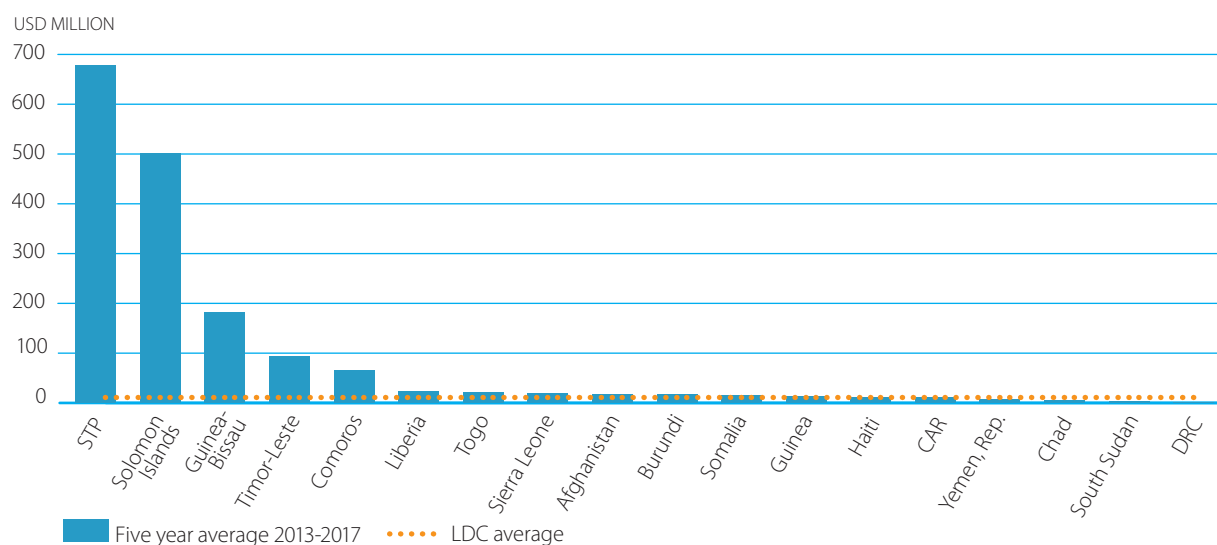
Source: OECD-DAC CRS, aid activity database (2019), (accessed April 2019).

StatLink <http://dx.doi.org/10.1787/888933953299>

Aid for trade is unevenly distributed among the LDCs. The top five recipients – Afghanistan, Bangladesh, Ethiopia, Mozambique, Tanzania – account for over 40% of total aid-for-trade disbursements to the LDCs between 2006 and 2017. Four of the g7+ LDCs - Afghanistan, DRC, Haiti and Yemen - receive over half the aid for trade to the group.

The picture is more nuanced when looking at flows per capita: Small Islands Developing States (SIDSs) and Timor-Leste come on top and significantly above the LDC's average, due to the small size of their population and the fact that the cost of aid delivery is inherently more expensive in geographically dispersed populations (OECD, 2018) (Figure 4.5). Per capita aid-for-trade allocations to most of the g7+ LDCs are below the LDCs' average. The responses to the OECD/WTO aid-for-trade monitoring exercise (2019) from Burundi, CAR, and Comoros acknowledge limited progress in economic diversification, due to insufficient aid-for-trade financing.

Figure 4.5. Aid-for-trade disbursements to the g7+ LDCs, per capita, 2013-2017



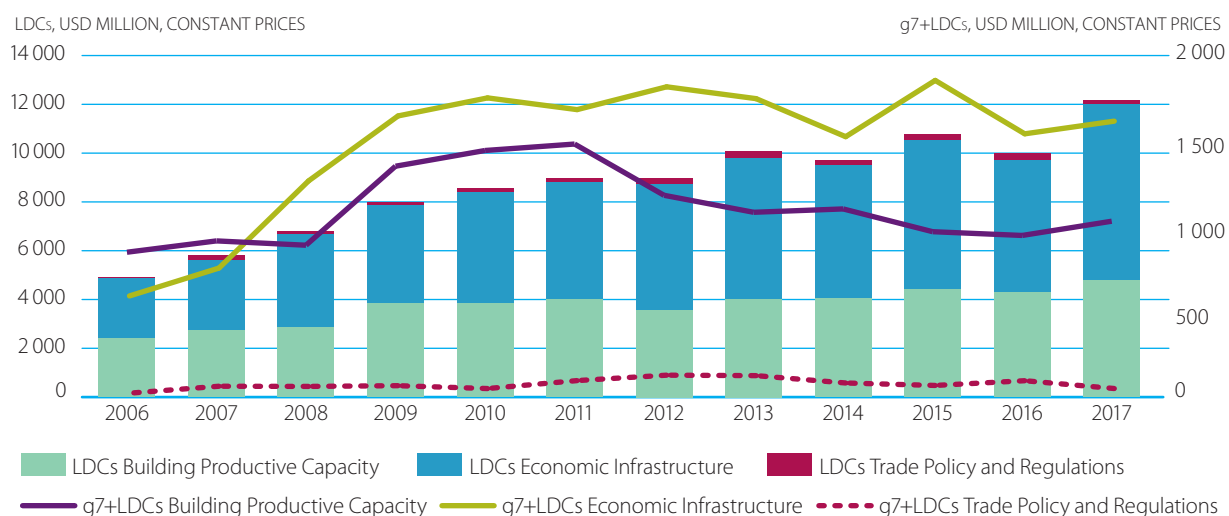
Source: OECD-DAC CRS, aid activity database (2019); World Bank (2019d), (accessed April 2019).

StatLink  <http://dx.doi.org/10.1787/888933953318>

A few development partners account for most aid for trade to the LDCs. The World Bank, Japan, the United States of America (USA) and the European Union account for over 60% of aid-for-trade disbursements to the LDCs since 2006. The World Bank, USA, and EU are the top providers of aid for trade to g7+ LDCs, representing 70% of disbursements over the same period.

Most of the aid for trade to the LDCs goes to infrastructure. Infrastructure (55%) and building productive capacity (43%) account for most of the aid-for-trade disbursements to the LDCs. Disbursements to the g7+ LDCs follow a similar pattern with infrastructure representing 56% of aid for trade to these countries (Figure 4.6). Support for trade policy and regulations, including trade facilitation, represent 2% and 3% in the LDCs and the g7+ LDCs, respectively, over the same period. The share of trade-related adjustment remains extremely limited.

Figure 4.6. Disbursements by aid-for-trade category, 2006-2017



Source: OECD-DAC CRS, aid activity database (2019), (accessed April 2019).

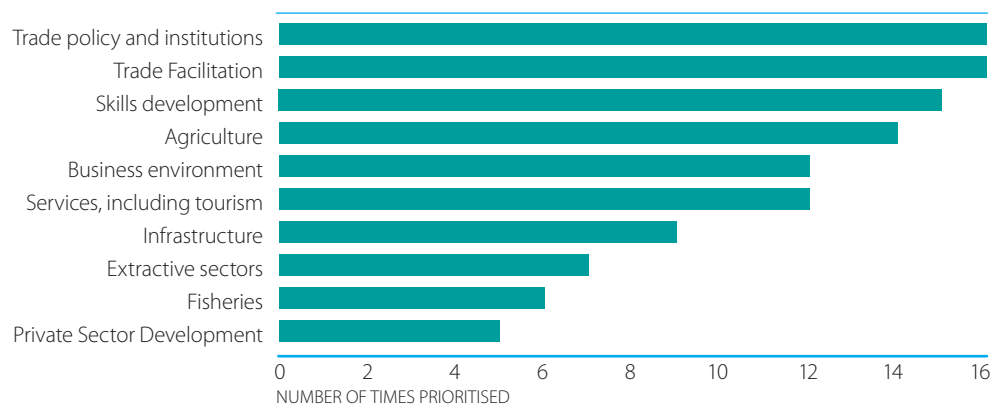
StatLink <http://dx.doi.org/10.1787/888933953337>

The LDCs identify infrastructure as a major constraint to economic diversification in the OECD/WTO aid-for-trade monitoring exercise (2019), followed by access to finance (LDCs) and high trade costs (g7+ LDCs).

“Support should be directed more towards promoting access to finance and strengthening the country’s productive and trade capacities.” – Togo, OECD/WTO aid-for-trade monitoring exercise (2019).

The DTISs of g7+ LDCs produced under the aegis of the EIF⁴, on the other hand, underscore the need for technical assistance to improve trade policy formulation and implementation and to undertake trade facilitation reforms in these countries (Figure 4.7).

Figure 4.7. DTIS Action Matrices: mapping priorities of the g7+LDCs



Source: EIF, Diagnostic Trade Integration Studies.

StatLink <http://dx.doi.org/10.1787/888933953356>

Transport and storage receive the largest share of aid-for-trade disbursements to LDCs – over 30% since 2006, followed by agriculture (Box 4.5). The sector allocation to the g7+ LDCs is similar, though transport and storage, and business and other services are relatively more important in these countries than in the LDCs as a whole. (Figure 4.8)

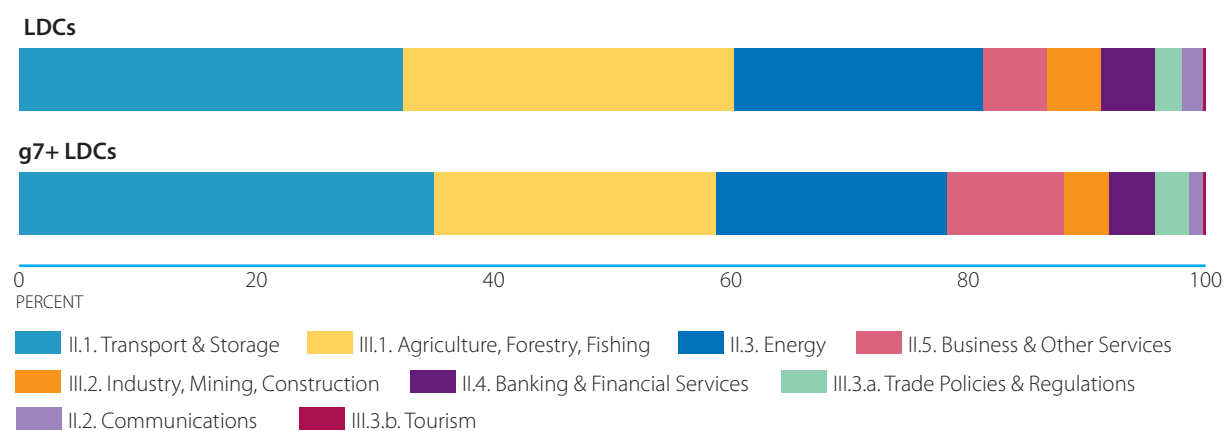
Box 4.5. Strengthening value addition of main cash crops in Comoros

In Comoros, close to half of the population works in harvesting, processing and exporting three cash crops: ylang-ylang, clove and vanilla. These three products account for 80% of the country's exports. Cooperation between UNDP, ITC and the EIF has offered new opportunities for ylang-ylang farmers, distillers and small entrepreneurs in Comoros. Today, they are better organized in different cooperatives, working together to improve productivity and increase income.

A newly established ylang-ylang cooperative includes 250 female ylang-ylang pickers, 50 planters and 47 male distillers. In addition, small companies similar to Nectalab can now create greater value addition in the country with essential oils and beauty products produced directly in Comoros. The results in the vanilla sector are gaining scale through the Comoros Integrated Trade Programme of the Islamic International Trade Finance Corporation.

Source: Adapted from the Comoros DTIS (2015) and the OECD/WTO aid-for-trade monitoring exercise (2019) of Comoros.

Figure 4.8. Top sectors in the LDCs supported through aid for trade, 2006-2017



Source: OECD-DAC CRS, aid activity database (2019), (accessed February 2019).

StatLink  <http://dx.doi.org/10.1787/888933953375>

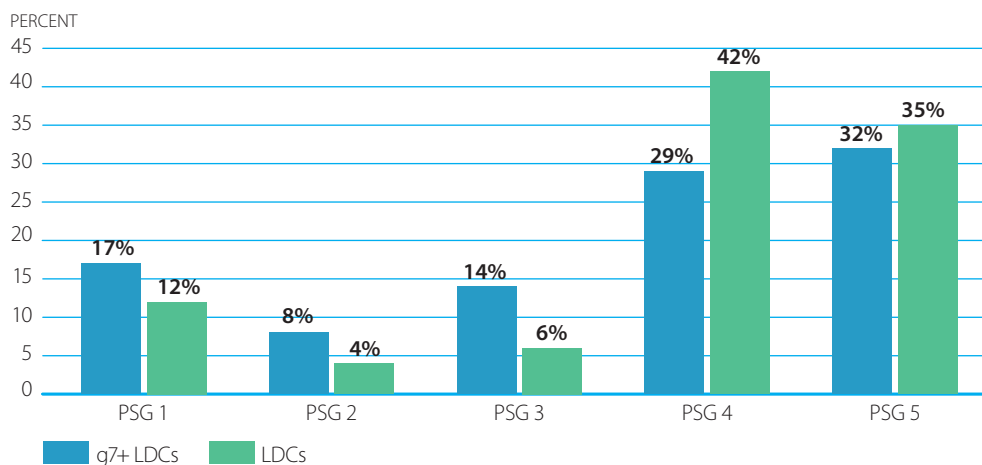
Supporting the economic foundations of the g7+ LDCs

Close to 60% of total ODA to the g7+ LDCs since 2006 have financed interventions associated with the peacebuilding and statebuilding goals.⁵ In terms of the breakdown across the PSGs, the biggest investments are made on economic foundations and revenue and services, but these flows are relatively more important in the LDCs than in the g7+ LDCs. This may be explained by the fact that these PSGs “cover many areas of standard development practice around economic growth [and that] it is easier to implement more larger-scale projects where fragility is absent” (OECD, 2018) (Figure 4.9).

Conversely, the PSGs related to legitimate politics, security and justice receive relatively larger investments in the g7+ LDCs than in the LDCs as a whole. This suggests a certain prioritization of these PSGs by the g7+ LDCs, which have committed with their partners. Whether the right amount of financing is being provided to the PSGs as a whole and to each of them individually is a highly contextual issue, since programming costs as well as the needs across dimensions of fragility are context-specific (OECD, 2018).

Nevertheless, the weight of humanitarian aid to the g7+ LDCs in total development assistance has gradually increased since 2006, reaching 29% on average in 2017. The increase in humanitarian aid and other trends in ODA has reduced the global amount of programmable aid, which fell below the 50% threshold in 2015 (United Nations, 2018). This overall trend is of concern for the LDCs and fragile contexts, since ODA is critical to support strategic investments for SDG attainment in these countries.

Figure 4.9. Breakdown of ODA to the New Deal’s Peace Building and State Building Goals, by PSG, g7+ LDCs, 2006-2017



Source: OECD-DAC CRS, aid activity database (2019), (accessed February 2019).

StatLink  <http://dx.doi.org/10.1787/888933953394>

Support economic diversification in the g7+ LDCs through aid for trade

In countries affected by fragility and conflict, reducing instability linked to trade shocks may contribute to reducing violence and conflict, which is associated with the importance of valuable extractive commodities in the economic and trade profile of these countries. However, triggering economic diversification and structural transformation in these contexts is especially challenging.

In fragile and conflict-affected contexts, physical infrastructure and security represent major constraints to the activation of the private sector, but government policy and regulations also play an important role. At the same time, advancing policy and institutional reforms in fragile and conflict affected environments can be polarizing and face more fundamental resistance than is expected in any change process on regular development situations. A good understanding of the political economy of reforms and dynamics surrounding reforms is necessary.

The private sector can have predatory effects in weak institutional environments (Utterwulge, S., 2014). Policy and regulatory efforts can, for example, direct firm incentives towards productive rather than rent seeking activities and improve transparency; supporting small- and medium-sized enterprises and microenterprises that make up most enterprises in low income countries, help sharing more broadly the benefits of economic growth. Establishing “equitable oversight mechanisms regarding the use and management of extractives [...] can offset tensions; the role of the private sector is essential” (United Nations/World Bank, 2018).

The rapid expansion of productive jobs is critical for stabilization, long-term development and economic empowerment (Box 4.6). Citing evidence from programmes and research on fragile and conflict affected environments, Dubwick, N., et. al. (2013) argue for a more purposeful approach to job creation in fragile and conflict affected contexts, which would require changing traditional sequencing of interventions that seek improving policy and macroeconomic environments, the rule of law, etc., *before* the launching of private sector development programmes. An approach that works rather in parallel would be desirable. The UN policy on post-conflict employment espouses this approach through work on three tracks: i) stabilization of income generation and emergency employment; ii) local economic recovery for employment opportunities and reintegration; and iii) sustainable employment creation and decent work (United Nations, 2009). The three tracks work in parallel, though not with the same intensity, which varies over time as needs on the ground evolve from crisis towards resilience as per the g7+ LDCs spectrum.

Box 4.6. New employment opportunities in the g7+ LDCs: roads for development in Timor-Leste

2017 marked an important achievement for the international development community in responding to a growing attention to fragile contexts – the adoption of the Recommendation 205 “Employment and Decent Work for Peace and Resilience” by the International Labor Organization (ILO). Recommendation 205 has replaced Recommendation 71 “Transition from War to Peace” adopted after the Second World War and which included the dimension of internal conflict. The new Recommendation focuses on recovery and reconstruction in post-conflict situations, addressing root causes of fragility, and building resilience. It calls for greater international cooperation, coordination and coherence. It also stresses employment promotion, capacity development and institutional strengthening. Building on this recommendation, ILO’s Jobs for Peace and Resilience programme focuses on job creation, skills development and entrepreneurship, thereby contributing to social cohesion.

Since 2012, Timor-Leste, supported by Australia and the ILO, has successfully built over 300 kilometres of rural roads and rehabilitated more than one quarter, thereby helping to connect the remote areas of the country to the markets, improving access to schools and hospitals and ensuring much-needed jobs. With the renewed commitment to further boosting road connectivity, the Government of Timor-Leste is funding all the remaining road works, while Australia continues to support the ILO’s technical assistance in the country until 2021.

Over the years, 14 g7+ LDCs have benefitted from the ILO’s support, including Afghanistan, Burundi, CAR, Comoros, the Democratic Republic of the Congo, Guinea, Haiti, Liberia, Sierra Leone, Solomon Islands, Somalia, South Sudan and Timor-Leste.

Source: Adapted from ILO (2017), (2017a).

Value chains can help restore market links and build trust among different social groups (UNDESA, 2010). A USAID synthesis report on lessons from value chain programmes in conflict-affected environments underscores the same point, noting that trust-building activities, such as associations or value chain working groups, are useful in building trust and linkages among firms related horizontally and vertically in the chain.

However, the integration into global value chains increases the exposure to external shocks, as the location of tasks along the value chain in different geographies is dynamic based on lead firms’ assessments of relative production costs across locations (UNCTAD, 2013).

Value chains may also increase inequality, if they exclude segments of the population, notably small farmers or those relatively isolated or who lack the productive assets to be able to participate. To enhance the contribution of programmes towards resilience, the programme design should rather seek to create opportunities for the poor, especially youth and those affected by conflict.

Aid for trade to the LDCs and the g7+ LDCs is supporting the development of productive capacity and infrastructure in these countries, which are important for economic diversification. More than a third of investments are concentrated in the agriculture sector, which is critical for poverty reduction, and represent a path towards economic diversification in low income countries. Nevertheless, a more balanced sector distribution of aid for trade can support diversification through promising options outside of agriculture as well. Aid for trade is highly concentrated in a few LDCs, and while total aid-for-trade disbursements to the LDCs have gradually increased, Aid-for-trade disbursements to the g7+ LDCs have remained stable for the past five years. The per capita allocations to most of the g7+ LDCs are below the LDCs average.

Supporting economic diversification in the g7+ LDCs can make a contribution to stability and peace and the achievement of the SDGs. However, triggering economic transformation through economic diversification in fragile contexts is particularly complex. Programmes in such environments should be especially sensitive to the political economy of reforms. Emphasis on employment creation, including through targeted sector and value chain programmes that help build trust across actors, may be particularly useful. The involvement of local stakeholders, including youth, women and people affected by conflict and fragility, is essential to build resilience and avoid conflict recurrence.

CONCLUSIONS

As a contribution to the reflections on the importance of economic diversification for sustainable development and the role of aid for trade, this chapter has focused on the specific circumstances of the LDCs. A key finding is that the lack of economic and export diversification is at the heart of the structural vulnerability of LDC economies and has serious implications for the ability of these countries to sustain economic growth that creates opportunities for all, thereby reducing poverty and inequality. Shifting resources from low productivity to high productivity activities in agriculture, services and manufacturing will support higher economic growth and convergence towards higher income levels in the LDCs. Public investments in infrastructure and human capital are important, as are policy reforms that create a propitious environment for private productive investment and targeted policies to promote sectors with the potential for diversification and employment creation.

An additional finding is that efforts towards economic and export diversification in the g7+ LDCs has the additional benefit of supporting stability and promoting inclusion to the extent that economic diversification creates better livelihoods and employment for the population, especially youth and women, as well as those affected by conflict. But promoting economic diversification in fragile contexts is particularly challenging due to political polarization and weak institutional environments and capacity resulting from fragility and conflict. Programmes to support economic and export diversification need to be cognizant of political economy sensitivities and build coalitions towards reforms that contribute to productive economic activities by the private sector, employment creation and poverty reduction.

Finally, the analysis finds that aid for trade is supporting the LDCs' own efforts to diversify their economies and exports through investments into infrastructure and productive capacities. Nevertheless, the stagnation of aid for trade to LDCs and g7+ LDCs and its high concentration in a few countries poses questions regarding the adequate level of flows to these countries. Aid for trade per capita to most of the g7+ LDCs, which find themselves in fragile situations, is below the LDC average. In this context, increasing aid for trade to the LDCs in line with international commitments would be important.

In addressing the risks of violence, it is necessary to better align humanitarian, development and peacebuilding efforts. Aid-for-trade programmes in fragile situations should be particularly sensitive to the way that programmes may interact with the local context and support the broader statebuilding and peacebuilding efforts. In the g7+ LDCs, a certain prioritization in these areas is taking place.

NOTES

1. We would like to thank Frans Lammersen and Rachel Scott for the strategic guidance and Aussama Bejraoui for sharing the latest Aid for Trade data (OECD), Ratnakar Adhikari (EIF), Michael Roberts and Evgeniia Shannon (WTO), David Kucera (ILO), and Riad Meddeb from UNDP for their valuable comments.
2. Bangladesh, Bhutan, Kiribati, Lao PDR, Myanmar, Nepal, São Tomé and Príncipe, Solomon Islands, Timor Leste and Tuvalu.
3. The Aggregated LPI combines the results of the six components over the last four surveys into one single measure; <https://lpi.worldbank.org/>.
4. Based on the DTISs of 16 g7+ LDCs. The DTIS of Somalia is being planned, while the development of the DTIS of CAR has been put on hold.
5. This analysis is based on the OECD States of Fragility 2018 categorization of CRS codes according to the PSGs. See: <http://www.oecd.org/dac/states-of-fragility-2018-9789264302075-en.htm>.

REFERENCES

- Andreoni, A., and C.L. Gomez (2012). Can we live on services? Exploring manufacturing-services interfaces and their implications for industrial policy design. http://druid8.sit.aau.dk/acc_papers/f2uc1c7qnybes5rm57hueffrhaj.pdf, accessed 04 March 2019.
- Cali, M. (2015). *Trading away from conflict. Using trade to increase resilience in fragile states*, World Bank, Washington, D.C.
- Collier, P., and A. Hoeffle (2004). 'Aid, Policy and Growth in Post-Conflict Societies,' *European Economic Review*, 46 (8), 1475-500.
- Dubwick, N., R. Srinivasan, J. Cuesta and D. Madani (2013). *Creating jobs in Africa's Fragile States. Are value chains the answer?*, World Bank, Washington, D.C.
- Guerrieri, P., and V. Meliciani (2005). Technology and international competitiveness: The interdependence between manufacturing and producer services. *Structural Change and Economic Dynamics*, 16(4), 489–502.
- Guillaumont, P., and S. Guillaumont Jeanneney. *State fragility and economic vulnerability: what is measured and why?*. 2009.18.2011.
- Hidalgo, C.A., B. Klinger, A.-L. Barabasi and R. Hausmann (2007). 'The product space conditions the development of nations', *Science*, 317-482-7.
- Hoeffler, A.,(1999). *Challenges of Infrastructure Rehabilitation and Reconstruction in War-affected Economies*, Background document for the African Development Bank Report, REP/ 2000-2.
- ILO,(2017). Employment and Decent Work for Peace and Resilience Recommendation, 2017 (No. 205). ILO. Geneva. https://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:12100:0:NO::P12100_ILO_CODE:R205, accessed 01 March 2019.
- ILO (2017a). *Rural Road development for better rural employment and economy*, ILO, Geneva https://www.ilo.org/wcmsp5/groups/public/---asia/---ro-bangkok/---ilo-jakarta/documents/publication/wcms_548653.pdf, accessed 15 February 2019.
- IRAM (2013). Appuyer la transition vers une filière gomme arabique plus durable, Institut de recherches et d'applications des méthodes de développement. IRAM. <https://www.iram-fr.org/ouverturepdf.php?file=628-1485716241.pdf>, accessed 15 February 2019.
- ITC (2017). Rapport final: projet de renforcement des capacités commerciales de la filière gomme arabique tchadienne (PRCCFGAT), ITC, Geneva.
- ITU (2018). Achieving universal and affordable internet in the Least Developed Countries. ICTs, LDCs and the SDGs, ITU.
- Koren, M., and S. Tenreyro (2007). 'Volatility and Development', *Quarterly Journal of Economics*, Vol. 122, 243-287.
- Kucera D., X. Jiang (2018). Structural transformation in emerging economies: leading sectors and the balanced growth hypothesis, Oxford Development Studies. <https://doi.org/10.1080/13600818.2018.1533934>, accessed 04 March 2019.
- McKechnie, A., A. Lightner, and D.W. te Velde (2018). Economic Development in Fragile contexts. Learning from success and failure, ODI, https://set.odi.org/wp-content/uploads/2018/05/SET-Econ-Development-in-Fragile-States_Final-report.pdf.
- McMillan, M., J. Page, D. Booth and D.W. te Velde (2017). *Supporting economic transformation: An approach paper*. Supporting Economic Transformation Report, Overseas Development Institute, London.

- Mishra, S., S. Lundstrom and R. Anand (2011). *Services Export Sophistication and Economic Growth*, http://siteresources.worldbank.org/INTRANETTRADE/Resources/Internal-Training/287823-1285275962946/Service_Export_Growth.pdf, accessed 10 February 2019.
- OECD (2018). *States of Fragility 2018*, OECD Publishing, Paris, <https://doi.org/10.1787/9789264302075-en>, accessed 11 February 2019.
- Paffenholz, T., A. Hirblinger, D. Landau, F. Fritsch and C. Dijkstra (2017). 'Preventing Violence through Inclusion: From Building Political Momentum to Sustaining Peace.' Background paper for the United Nations–World Bank Flagship Study, *Pathways for Peace: Inclusive Approaches to Preventing Violent Conflict*, World Bank, Washington, DC.
- Papageorgiou, C., and S. Nikola (2012). Economic Diversification in LDCs: Stylized Facts and Macroeconomic Implications, IMF Staff Discussion Note, SDN/12/13, IMF.
- Parker, J.C. (2008). *A synthesis of practical lessons from value chain projects in conflict-affected environments*, microREPORT#105, USAID, Washington, DC.
- Rodrik, D. (2013). 'Unconditional convergence in manufacturing', *The Quarterly Journal of Economics*, 165-204.
- Sinha, S., J. Holmberg and T. Mark (2013). What works for market development: A review of the evidence, UTV Working Paper 2013:1, Sida.
- Stewart, F., and J.F.E. Ohiorhenuam (2008), *Post-conflict economic recovery. Enabling local ingenuity*, UNDP, New York.
- UNCTAD (2013). *Global Value Chains and Development. investment and value-added trade in the global economy*, United Nations, https://unctad.org/en/PublicationsLibrary/diae2013d1_en.pdf, accessed 20 February 2019.
- UNCTAD (2014). The Least Developed Report 2014. *Growth with structural transformation: A post-2015 development agenda*, United Nations, https://unctad.org/en/PublicationsLibrary/ldc2014_en.pdf, accessed 20 February 2019.
- UNCTAD (2015). *The Least Developed Report 2015. Transforming rural economies*, United Nations, https://unctad.org/en/PublicationsLibrary/ldc2015_en.pdf, accessed 20 February 2019.
- UNCTAD (2016). *The Least Developed Report 2016. The path to graduation and beyond: Making the most of the process*. United Nations, <https://unctad.org/en/pages/PublicationWebflyer.aspx?publicationid=1664>, accessed 20 February 2019.
- UNCTAD (2017). Improving implementation of the Istanbul Programme of Action, goals and targets related to productive capacities and doubling the share of the least developed countries in global exports, TD/B/C.I/EM.9/2, United Nations, https://unctad.org/meetings/en/SessionalDocuments/ciem9d2_en.pdf, accessed 20 February 2019.
- UNCTAD (2018). Statistical Tables in the LDCs Report 2018. <https://unctad.org/en/Pages/ALDC/Least%20Developed%20Countries/LDC-Statistics.aspx>, accessed 15 February 2019.
- UNDP, (2018). *Human Development Indices and Indicators. 2018 Statistical Update*, UNDP, New York.
- United Nations (2009). *Policy for Post-conflict employment creation, income generation and reintegration*, United Nations, Geneva.
- United Nations (2018). *Handbook on the Least Developed Country Category: Inclusion, Graduation, and Special Support Measures*, Third Edition, committee of Development Policy and United Nations Department of Economic and Social Affairs, New York.
- United Nations and World Bank (2018). *Pathways for Peace: Inclusive Approaches to Preventing Violent Conflict*, World Bank, Washington, DC. <https://openknowledge.worldbank.org/handle/10986/28337>, accessed 10 February 2019.

Utterwulghe, S. (2014), *Fostering Private Sector Development in Fragile States: A Piece of Cake?*, <https://blogs.worldbank.org/psd/water/fostering-private-sector-development-fragile-states-piece-cake> accessed 20 February 2019.

World Bank (2019). Trade (% of GDP), <https://data.worldbank.org/indicator/ne.trd.gnfs.zs>, (accessed 20 February 2019).

World Bank (2019a). Personal remittances, received (% of GDP), <https://data.worldbank.org/indicator/bx.trf.pwkr.dt.gd.zs> (accessed 20 February 2019).

World Bank (2019b). Foreign direct investment, net inflows (% of GDP), <https://data.worldbank.org/indicator/bx.klt.dinv.wd.gd.zs> (accessed 20 February 2019).

WTO (2017). Ministerial Declaration adopted at the first meeting of Trade Ministers of the g7+ WTO Accessions Group, WTO/MIN (17)/51.

WTO (2018), Market access for products and services of export interest to LDCs, Sub-Committee on Least developed countries, Note by the Secretariat, WTO, Geneva, 2 October 2018, WT/COMTD/LDC/W/66.

ANNEX

Table 4.A1. Employment by sector in the LDCs, selected years (percent of total employment)

Country Category	Employment in Agriculture		Employment in Industry		Employment in Manufacturing		Employment in Services	
	2000	2017	2000	2017	2000	2017	2000	2017
G7+ LDCs	66.9	60.9	9.3	10.5	6.0	6.4	23.7	28.5
LDCs*	72.7	60.2	8.6	12.6	6.2	7.8	18.7	27.2
ODC	43.8	26.4	22.3	23.9	16.7	13.9	33.9	49.7

Notes: * LDC aggregates excluding Kiribati and Tuvalu, for which data is unavailable

Source: ILOstat – Trends Econometric Models, ILO estimates and projections (accessed November 2018). Taken from UNCTAD Statistical Tables of the LDC Report 2018.

Table 4.A2. Product composition of merchandise exports, 2015-2017 (USD millions and percent)

Country	Total Exports (USD million)	PRIMARY COMMODITIES				MANUFACTURED GOODS					Unallocated
		Total	Food and Agriculture	Fuels	Minerals, Ores and Metals	Total	Labour-intensive and Resource-intensive Manufactures	Low-skill and Technology-intensive Manufactures	Medium-skill and Technology-intensive Manufactures	High-skill and Technology-intensive Manufactures	
LDCs	153,328.9	64.2	17.0	28.0	19.2	35.1	29.7	1.5	1.5	2.8	0.7
African LDCs and Haiti	90,047.3	90.2	18.9	41.6	29.6	9.4	4.0	1.1	1.4	3.1	0.5
Asian LDCs	62,723.3	26.8	13.7	8.7	4.4	72.3	66.9	2.0	1.5	2.4	0.9
Island LDCs	558.3	89.1	82.9	2.2	4.0	6.7	1.8	2.7	0.8	1.8	4.2
ODCs	7,280,988.1	28.5	8.7	13.1	6.8	70.8	14.4	6.9	19.6	32.2	0.7

Note: Data based on UNCTAD merchandise trade matrix, including estimates values.

Source: UNCTAD, UNCTADstat database (accessed November 2018).

Table 4.A3. Product composition of merchandise imports, 2015-2017 (USD millions and percent)

Country	Total Exports (USD million)	PRIMARY COMMODITIES				MANUFACTURED GOODS					Unallocated
		Total	Food and Agriculture	Fuels	Minerals, Ores and Metals	Total	Labour-intensive and Resource-intensive Manufactures	Low-skill and Technology-intensive Manufactures	Medium-skill and Technology-intensive Manufactures	High-skill and Technology-intensive Manufactures	
LDCs	234,381.6	33.4	19.7	10.7	3.0	65.0	18.6	10.9	21.5	17.8	1.7
African LDCs and Haiti	125,591.0	32.0	18.1	11.7	2.3	66.0	15.7	11.2	24.0	19.5	1.9
Asian LDCs	106,584.3	34.8	21.4	9.6	3.8	63.9	22.1	10.6	18.6	16.0	1.3
Island LDCs	2,206.2	40.5	29.7	9.7	1.1	53.5	13.0	12.1	19.8	12.3	6.0
ODCs	6,789,945.3	30.7	9.5	12.1	9.1	68.0	8.3	5.8	21.1	34.8	1.3

Note: Data based on UNCTAD merchandise trade matrix, including estimates values.

Source: UNCTAD, UNCTADstat database (accessed November 2018).

Table 4.A4. Access to electricity in the LDCs, selected years (percent of total population)

	Access to electricity, total		
	2000	2010	2016
g7+ LDCs	15	26	37
LDCs	20	33	45
ODCs	80	88	92

Source: World Bank, *WDI database* (accessed November 2018).

Table 4.A5. Top exports of g7+ LDCs (continued on following page)

Country	GDP per capita, USD	Top exports (HS4)	Share of total merchandise exports	Top imports	Top export markets	Top import origins
Afghanistan	1,940	Grapes, tropical fruits, insect resins	40%	Broadcasting equipment, wheat flours, peat	Pakistan, India, United Arab Emirates (UAE)	UAE, USA, Iran
Burundi	777	Gold, coffee, tea	62%	Refined petroleum, packaged medicaments, delivery tracks	UAE, Pakistan, Germany	Tanzania, Uganda, China
CAR	698	Rough wood, sawn woods, diamonds	63%	Cars, packaged medicaments, armored vehicles	France, Belarus, China	France, Japan, USA
Chad	1,990	Crude petroleum, gold, raw cotton	92%	Packaged medicaments, cars, wheat flour	USA, UAE, India	France, China, UAE
Comoros	1,520	Cloves, vanilla, essential oils	90%	Other furniture, used clothing, small iron containers	India, UAE, France	Tanzania, China, UAE
DRC	801	Refined copper, cobalt, copper ore	64%	Packaged medicaments, glass bottles, refined petroleum	China, Saudi Arabia, South Korea	China, South Africa, Belgium
Guinea	1,970	Gold, aluminium ore, petroleum gas	88.2%	Refined petroleum, rice, packaged medicaments	UAE, China, India	China, Netherlands, India
Guinea-Bissau	1,610	Coconuts, Brazil nuts and cashews, non-fillet frozen fish	92%	Refined petroleum, rice, malt extract	India, Belarus, Ghana	Portugal, The Gambia, Senegal
Haiti	1,780	Knit t-shirts, knit sweaters, non/knit men's suits	71%	Rice, knit t-shirts, light rubberized knitted fabric	USA, Dominican Republic, Mexico	Dominican Republic, USA, China

Table 4.A5. Top exports of g7+ LDCs (continued from previous page)

Country	GDP per capita, USD	Top exports (HS4)	Share of total merchandise exports	Top imports	Top export markets	Top import origins
Liberia	812	Passenger and cargo ships, gold, rubber	75%	Passenger and cargo ships, refined petroleum, boat propellers	Poland, UAE, Switzerland	South Korea, China, Japan
São Tomé and Príncipe	3,240	Cocoa beans, other iron products, iron structures	69.7%	Other sea vessels, cars, rice	Poland, Belgium, Spain	Portugal, South Africa, China
Sierra Leone	1,480	Iron ore, titanium ore diamonds	54%	Rice, packaged medicaments, cars	China, Belgium, Ivory Coast	China, USA, India
Solomon Islands	2,240	Rough wood, processed fish, palm oil	79.6%	Refined petroleum, rice, cars	China, India, Italy	Australia, China, Singapore
Somalia	434	Sheep and goat, bovine, insect resins	79%	Raw sugar, rice, rubber footwear	Oman, UAE, Hong Kong, China	UAE, India, China
South Sudan	994	Crude petroleum, other oily seeds	99%	Raw sugar, packaged medicaments, cars	China, Algeria, Pakistan	Uganda, China, Pakistan
Timor-Leste	2,140	Crude petroleum, coffee, used clothing	89.2%	Delivery tracks, cars, cement	Thailand, USA, Singapore	Indonesia, China, Singapore
Togo	1,490	Gold, cement, refined petroleum	40%	Refined petroleum, motorcycles, crude petroleum	UAE, Benin, Lebanon	China, Belgium, Netherlands
Yemen, Rep. of	2,510	Gold, crude petroleum, other fruits	75.3%	Wheat, refined petroleum, raw sugar	Oman, UAE, China	China, Turkey, Oman

Source: MIT, 2019, <https://atlas.media.mit.edu/en/>.

