UN-OHRLLS

**Comprehensive 10 Year Review Conference on the implementation of the Almaty Programme of Action (APoA)**

# Draft Concept Note: A discussion on the vulnerability of Landlocked Developing Countries to external shocks.

## Date and Venue: Tuesday, 27 May 2014, United Nations Headquarters

## Background

Given their lack of direct access to seaborne trade, LLDCs find themselves on an inherently disadvantaged development path compared with countries with coastlines and deep-sea ports. Landlockedness itself coincides with other factors that impair development, such as remoteness from major markets and difficult topography, as well as tropical or desert ecology. Such severe difficulties are further amplified by landlocked developing countries' dependence on the political stability, the infrastructure and the institutional quality of coastal transit countries. The latter are, in most cases, themselves developing countries, often of broadly similar economic structure and beset by similar scarcities of resources. Many of the LLDCs are characterized by institutional weaknesses, policy deficiency, underdeveloped markets as well as inefficient modes of production and distribution. The continued dependence on a narrow range of commodity exports and the slow rate of productivity growth are all factors that have kept their economies far from generating the kind of dynamism experienced by other developing countries. LLDC is a group comprising of 31 member countries, majority of which are some of the poorest nations in the world. In real terms, 19 LLDCs have a GDP per capita that is well below $1,000. According to the 2013 *Human Development Report*, 10 of the 20 lowest-ranking countries on the human development index scale were landlocked.

LLDCs face the problems-related to scale, thinness of domestic market, quality, technological sophistication, competitiveness and trade-related infrastructure deficits. These challenges limit the LLDCs' ability to foster their productive capacity, upgrade and innovate, foment value addition and diversification so as to compete in their own liberalized markets, meet local demand while also being able to connect to global supply chains, and become effective participants in regional and international trade. While a lack of territorial access to the sea compounds these problems making LLDCs less attractive to FDI, external shocks reinforce their disadvantaged position, and complicate efforts to achieve inclusive, equitable and sustainable growth.

The launch of the Almaty Programme of Action (APoA) in 2003 marked the start of UN-led, multilateral efforts to address developmental challenges related landlockedness, with transit transport infrastructure at its core. A comprehensive ten-year review of APoA meeting, scheduled for 3-5 November 2014 in Vienna, Austria, follows an elaborate preparatory roadmap that includes but not limited to the following: national consultations and preparation of national reports; regional review meetings; Interagency Consultative Group activities, including pre-conference thematic events; and private sector-led events.

## External shocks and the LLDCs

External shocks are defined as unexpected and unpredictable events that affect a variable, either positively or negatively. In other words, external shocks come about when unpredictable change in an exogenous factor impacts endogenous economic variable. Both the unpredictable change and the variable within which the shock occurs are outside of the economic system. External shocks are propagated through a complex system of transmission mechanism.

External shocks present setbacks to policy development and structural transformation, including investment in core infrastructure, technology and factors of production. These shocks slow down economic growth, weaken the foundations of important institutions, reduce total factor productivity and lead to a contraction in real income. In addition, external shocks reinforce the vicious cycle of poverty and general underdevelopment at the micro level, by obliterating social and economic safety nets, undermining system-wide resilience, and at the same time reinforcing dependence on external assistance.

The nature, extent and timing of external shocks may create anxiety and nervousness among investors, especially if the ability of the state to adequately respond to, and address the ensuing challenges is doubtful. Endemic and cyclical shocks could create uncertainty, increase costs of doing business and erode the profit margins. Repeated external shocks in the developing countries could also slow down the inflow of private investment, and accelerate capital flight and general disinvestment. Recurrent external shocks undermine efforts to build asset reserves, including the accumulation of foreign currencies by the state, savings by the households and capital formation by firms. In brief, large systematic shocks reverse hard –earned economic and policy gains and engenders frugality.

Economic and financial shocks are transmitted through trade and exchange, and are manifested as commodity price volatility, slumps in external demand, world interest rates fluctuations, declining activities in the tourism sector, and immigrant worker remittances, among others. Such shocks lead to deterioration in terms of trade, declining exports, falling prices on the world market etc. In a nutshell, external shocks shrink national income by reducing demand or the purchasing power of existing output (or both).

Accelerated globalization and integration of the world economy has increased exposure of the LLDCs to these shocks. Due to their geographical location and strengthening of ties with the outside world, landlocked developing countries have become extremely vulnerable to external shocks, among them: natural disasters such as earthquakes and landslides; climate-change related disasters that include droughts and floods; financial and economic shockwaves; armed-conflict and social and political instability etc.

## Examples of external shocks that impact LLDCs

While LLDCs are not closely integrated in the global capital and financial markets, they have, nevertheless, been impacted by the current financial and economic crises, whose roots can be traced to the summer of 2007. Before the crises peaked, the annual GDP growth rate for the LLDCs was around 9.9 percent in 2006. At an average annual rate of 9.3 percent, economic output was particularly strong between 2005 and 2007. Per capita incomes rose strongly as well, averaging 7.6 percent over the same period. However, since 2008, annual GDP growth rate declined precipitously to about 4.1 percent in 2009 while per capita GDP growth slowed to just 1.8 percent. In terms of economic expansion, LLDCs are yet to recover to their pre-crisis levels. It is important to note here that landlocked developing countries performed consistently better than the world average before and during the crisis. The crises also spawned immediate downward pressure on the savings rate as well as investment. Worldwide capital formation which had been rising steadily levelled off at 23.0 percent of GDP in 2007 - then began to decline. The full impact on the LLDCs and transit developing countries was delayed and somewhat short-lived: capital formation rate for the two groups kept rising until well after 2009 then declined.

Trade volume (expressed as a share of GDP) is generally higher for LLDCs than global average, as well as for transit developing countries. Between 2005 and 2007, trade was about 84.3 percent of the LLDCs' GDP, compared to 51.6 percent for transit developing countries, and 57.4 percent for the world. That LLDCs endured more trade-specific devastation than other group of countries from the economic crisis, their trade volume as a share of GDP declined 7 percentage points, to 78.3 percent between 2008 and 2010. Over the same period, transit developing countries witnessed a modest 1.2 percent contraction, while global average fell just 0.5 percent. Merchandize trade was highest in 2008, when it reached 72.8 percent of LLDCs' GDP. However, it plummeted nearly 15 percentage points to 58.4 percent in 2009. Merchandize trade from transit developing countries declined 10 percentage points over the same period, but from a lower peak of 51.9 percent in 2008. Exports of goods and services reached 44.8 percent of GDP in 2008, but fell 36.4 percent the following year.

## A Preconference event on LLDCs to external shocks

While expressing concern that the economic growth and social well-being of landlocked developing countries remains highly vulnerable to external shocks and other challenges, the General Assembly in its resolution **A/Res/66/214** encouraged UN-OHRLLS and relevant international organizations, including the United Nations regional commissions, as well as relevant research institutions, to assist the landlocked developing countries to undertake research on the vulnerability of landlocked developing countries to external shocks and propose a set of vulnerability indicators that could be used for early warning purposes. The same resolution invited the international community to assist landlocked developing countries in strengthening their resilience and in protecting the advances made towards the realization of the Millennium Development Goals and the priorities of the Almaty Programme of Action.

## Objective of the discussion

Given the dual roles of external shocks - as growth-disrupting, and potentially, as catalysts for favorable policy re-orientation, it is imperative to underscore the macroeconomic implications of these exogenous activities. In view of the General Assembly request, UN-OHRLLS is pleased to organize a half day thematic discussion, **27 May 2014 at the UN Headquarters**, focused on the vulnerability of LLDCs to external shocks with objective view of laying the groundwork for UN-led efforts to identify and propose key indicators that could be used in the development of an early warning system. Besides, this event will also make policy suggestions on how LLDCs can be supported to turn challenges into opportunities. While having APoA in the background, this meeting will also be useful in the context of the priorities of the post 2015 development framework.

UN-OHRLLS will present a report on the vulnerability of the LLDCs to external shocks, with participants drawn from different UN agencies will make interventions, including, where possible, theoretical and empirical responses to the following set of questions:

- What are the sources, nature and extent of the most frequent type of external shocks that confront LLDCs?
- What are some of the economic, social and environmental implications of these external shocks?
- In view of impending external shocks, which policy instruments are available to LLDCs and how can they be strengthened?
- International support measures: What support measures exist for countries and populations suffering external shocks?
- What are the elements that could form an External Shock Vulnerability Index (ESVI) for the LLDCs? How should such an index look like?

## Discussion format and outcome

A half day expert-level discussion on the vulnerability of the LLDCs to external shocks will bring together policy experts, scholars and development practitioners. UN-OHRLLS will invite a limited number of representatives from the United Nations agencies and international development organizations to participate in the discussion as well as make presentations. Ambassadors and subject experts from all the 32 LLDCs will be invited. A report compiling the study papers as well as the highlights and outcome from the discussion will be prepared and submitted to Member States for consideration.

## Contact Person

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