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**United Nations Office of the High Representative for the Least
Developed Countries, Landlocked Developing Countries and Small
Island Developing States.**

Statement

by

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Statement to be delivered at
The Vulnerability of LLDCs to External Shocks Event

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Excellences,
Ladies and Gentlemen

I would like to welcome you to this pre-conference event organized by my Office as part of the preparatory process for the Second United Nations Conference on the LLDCs. In this event, we intend to highlight an important development challenge that impacts landlocked developing countries, much more than many other countries.

We believe that a good understanding of this issue will lead to a greater appreciation of the challenges, and thereby inform our collective will to seek sustainable solutions. We are pleased that this discussion is taking place right before the first PrepCom of LLDCs and at a time of intensification of discussions on Sustainable Development Goals (SDGs) and the post-2015 Development Agenda.

Excellencies,

External shocks are defined as the unexpected, unpredictable external changes that happen outside the national borders, but that which negatively affects the country's economy and livelihood substantially. The inability to influence their occurrence and mitigation imply that many LLDCs suffer from them disproportionately.

It has become abundantly clear that LLDCs are particularly vulnerable to external shocks due to their geographical disadvantage, smallness in land size and population, and other structural impediments that they manifest. Institutional deficiency, lack of export diversification, limited productive capacities, export concentration, prohibitive trade transaction costs and lack of export competitiveness, over dependence on official aid, high external debt, inadequate foreign reserve levels, and reliance on remittances from migrants abroad collectively contribute to their vulnerability to, and at the same time compromise their ability to deal with external shocks. The individual impacts of these vulnerabilities are difficult to withstand, and their cumulative impacts make sustainable development of LLDCs a particularly difficult and complex undertaking.

In addition, the geographical location of many LLDCs - in politically unstable parts of the world - means an increased exposure to social and political fallout that occurs elsewhere, including in transit countries.

The over reliance of many of these countries on rain-fed agriculture - for food and revenue - and the impacts of desertification, land degradation and mountain terrain underscores an even greater exposure to climate change-related shocks. Furthermore, trade and globalization, the forces that could promote growth and development, also concurrently enhance vulnerability of many LLDCs with volatile export base.

Therefore, building resilience does not only mean effectively dealing with the shocks and stressors, but also coming out from the shocks in a better shape than before, so that similar shocks do not cause repeated dislocations and devastations. For this to happen, there is a need for institutional reforms, structural transformation and strong global partnership with clear understanding of multiple and pervasive vulnerability of LLDCs.

Excellencies,

Recent experiences show that economic growth and social well-being of landlocked developing countries are closely tied to the status of the global economy, commodity price volatility, and high transaction costs, among others. The reform policies of the 1990s have improved service delivery, strengthened the private sector, created market competition and an environment that is much more attractive to foreign investors. Yet the very measures also induced market uncertainty and volatility and, in some cases deindustrialization and social instability, where there was a lack of institutional capacity for structural reforms.

External shocks, and their impact on the development outcomes of the LLDCs, have not garnered much interest until fairly recently. Since 2007-8 global crises, the vulnerability of the LLDCs to external shocks has become a prominent policy issue in intergovernmental, inter-agency and expert group meetings.

As part of the global efforts to assess the reach and fallout from the global financial and economic crisis, my Office prepared a report in 2009 in which we examined the impact of the crisis on the development prospects of landlocked developing countries. The report observed that the particular attribute of *being* landlocked could potentially magnify their effects. Today's discussion will be built upon that. We are pleased to share with you some of the findings from our second and most recent study on the impact of external shocks to the LLDCs, which is in its final stage of preparation.

Excellencies,

A number of policy recommendations on how to address external shocks have already been articulated in different fora. For instance, LLDCs have been encouraged to pursue a continued prudence in macroeconomic management along with stronger social protection measures, with the aim of building up resilience and economic diversification. The international community and transit countries have been urged to support LLDCs to strategically transform their economies so as to enhance their competitiveness in the global markets and build resilience to external shocks necessary for sustainable economic growth accompanied by adequate investment in social and human development.

As I have already observed, trade - especially the trans-border trade - is an engine of growth and development. We have seen that as export volumes from LLDCs have increased; these countries have grown more rapidly and broadly, reducing extreme poverty and other challenges. There are good reasons to want to accelerate this process by pursuing trade-deepening measures such as political and economic integration. Yet a disaggregated analysis reveals that a large number of LLDCs have not been able to improve their export performances.

Therefore, we must be aware that globalization and international trade create challenges that can be quite overwhelming to smaller and underdeveloped LLDCs. Dependence on a limited number of export items to a handful overseas markets inherently leaves such economies much more vulnerable to price and demand volatility overseas. It is for this reason that we emphasize

economic diversification and transformation, as well as the strengthening of domestic, sub-regional and regional markets.

LLDCs are also small economies many of which hold undiversified FDI portfolio, engage in a handful of international trading partners, rely on the export of high-bulk low value commodities, a large portion of which is dependent on time and weather conditions such as grain, tea, coffee, fruits, vegetables and cut flowers.

On its part, foreign direct investment remains crucial to underwriting growth in the LLDCs. Indeed, these countries do seek more of it. Where possible, LLDCs must aim at diversifying their FDI portfolios so as to be sufficiently cushioned against sudden and unexpected outflow of FDI.

We welcome the recent WTO Bali Agreement of December 2013 whose full implementation will help address shocks that relate to trade and transit. The consolidation of legal instruments to guarantee freedom of transit and safety of merchandise and personnel from LLDCs to the sea is long overdue. The implementation of this Agreement will not only give LLDCs full and unhindered access to the nearest seaport, it will also overcome non transparent and burdensome rules and other trade restricting measures. We remain confident that this landmark Agreement will also guarantee access to and the use of highways, rail networks, and seaports in transit countries in a more efficient manner thereby helping them reduce transaction costs.

Excellencies,

The vulnerability of LLDCs to external shocks and the need to address this problem featured prominently in each of the three regional review meetings that we organized last year in Laos, Ethiopia and Paraguay. Participants at a number of the inter-agency consultative group meetings have also identified the vulnerability of LLDCs to external shocks as being one of the new challenges that have emerged since the adoption of the Almaty Programme of Action, and emphasized that the 10-year review conference should reflect this reality. A number of LLDCs likewise expressed similar sentiments in their national reports and have urged that external shocks be treated as a key priority.

On its part, the United Nations General Assembly has lately expressed repeated concerns that the economic growth and social well-being of landlocked developing countries remain extremely vulnerable to external shocks and other challenges¹. It was against this backdrop that the General Assembly invited the international community to assist LLDCs in strengthening their resilience, and in protecting the advances made towards the realization of the Millennium Development Goals, and the *priorities set out in APoA*.

In addition, the General Assembly encouraged my Office to partner with international organizations, United Nations regional commissions as well as research institutions in undertaking studies and research on the vulnerability of LLDCs to external shocks, and to propose a set of vulnerability indicators that could be used in designing an early warning system. This meeting and other related works are in response to this request.

Excellencies,

A comprehensive response to this invitation requires the comprehensive identification of different types of external shocks that affect LLDCs, such as economic, financial, social, political, natural, climatic etc. It also involves the mapping out structural conditions and transmission mechanisms that underlie such vulnerabilities, including but not limited to incomes, demographic patterns, geographic location, social cohesion and economic diversification. To delve a bit deeper into all these aspects, we are privileged to have with us colleagues from the World Bank, UNCTAD and UN-DESA. I am confident that this meeting will lay the necessary ground for developing the requisite tools to build resilience from external shocks through coordinated, cohesive and collective efforts of all at the local, national and international levels.

I thank you for your attention.

¹ For example; A/Res/67/222 and A/Res/66/205