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**Special Body on Least Developed, Landlocked Developing
and Pacific Island Developing Countries: development
issues relevant to least developed countries****Regional implementation of the Programme of Action for
the Least Developed Countries for the Decade 2011-2020****Note by the secretariat***Summary*

The least developed countries in the Asia-Pacific region have made good progress in implementing the Programme of Action for the Least Developed Countries for the Decade 2011-2020 (Istanbul Programme of Action) and improving their prospects for timely graduation from the least developed country category. Several experienced robust economic growth in 2015 and 2016, and the outlook for 2017 looks cautiously optimistic. Progress has been made in reducing poverty, strengthening productive capacity, promoting agricultural development, increasing exports, investing in human resources and mobilizing financial resources. However, significant challenges remain. For instance, manufacturing and agricultural productivity is still relatively low, requiring significantly increased investments in infrastructure, human resources, science, technology, innovation and institutional development. More efforts are also needed to overcome the supply side constraints in boosting trade and investment. Domestic savings as a proportion of gross domestic product is still very low. Official development assistance, foreign direct investment and remittances, although increasing, need to be used to build up the countries' competitive strengths and to support the achievement of the Sustainable Development Goals. There is also significant scope for improving governance and establishing more transparent and accountable frameworks.

The Economic and Social Commission for Asia and the Pacific may wish to provide guidance to the secretariat on strengthening the capacity of the least developed countries in Asia and the Pacific to implement the Istanbul Programme of Action.

* E/ESCAP/73/L.1.

I. Introduction

1. The least developed countries in the Asia-Pacific region constitute some of the most vulnerable and structurally disadvantaged economies in the region.¹ Although they have made significant progress in achieving high economic growth and social progress, they continue to face multifaceted challenges, including low productive capacity, insufficient human and institutional capacity, high transaction costs in accessing international markets, low savings and investment, and acute vulnerability to climate change and natural disasters. The least developed countries in the Pacific subregion face extreme vulnerabilities and existential threats, while the development challenges the landlocked least developed countries face are compounded by their remoteness from seaports as well as high transport costs and transit barriers. The least developed countries which have relatively large populations face challenges arising from a high incidence of income poverty, low productivity and the slow pace of structural transformation.

2. The world economy was estimated to have grown by 2.3 per cent in 2016 and is projected to grow by 2.7 per cent in 2017.² This could augur well for least developed countries that depend on external demand for sustaining exports and growth, especially given that economic conditions stabilized in the region in the second half of 2016. However, these countries could encounter challenges as the global economic environment remains uncertain, particularly with the rebalancing of China, lower growth in India, Brexit, and the expected fiscal stimulus and interest rate hikes in the United States of America.³

3. The Fourth United Nations Conference on the Least Developed Countries adopted the Programme of Action for the Least Developed Countries for the Decade 2011-2020 (Istanbul Programme of Action)⁴ to galvanize national action and mobilize international support for the accelerated development of the least developed countries and their graduation from least developed country category on a sustainable basis.⁵ Implementation of the Programme of Action depends on national action, international support, and successful implementation of the 2030 Agenda for Sustainable Development, the SIDS Accelerated Modalities of Action (SAMOA) Pathway, the Addis Ababa Action Agenda of the Third International Conference on Financing for Development and the Paris Agreement, as these global compacts are mutually reinforcing.

4. This present document is organized in four sections. After the introductory section, the eight priorities of the Istanbul Programme of Action are discussed in section II, and information and analysis on progress, challenges encountered and the way forward for each of the priorities are

¹ Afghanistan; Bangladesh; Bhutan; Cambodia; Kiribati; Lao People's Democratic Republic; Myanmar; Nepal; Solomon Islands; Timor-Leste; Tuvalu; and Vanuatu.

² See World Bank Group, *Global Economic Prospects, January 2017: Weak Investment in Uncertain Times* (Washington, D.C., 2017) for a detailed discussion on global growth prospects in 2016 and 2017.

³ Economic and Social Commission for Asia and the Pacific (ESCAP), *Economic and Social Survey of Asia and the Pacific 2016: Year-End Update* (ST/ESCAP/2762).

⁴ *Report of the Fourth United Nations Conference on the Least Developed Countries, Istanbul, Turkey, 9-13 May 2011* (A/CONF.219/7), chap. II.

⁵ See *Asia-Pacific Countries with Special Needs Development Report 2016: Adapting the 2030 Agenda for Sustainable Development at the National Level* (United Nations publication, Sales No. E.16.II.F.11) for a comprehensive discussion of the graduation issue.

provided. Section III comprises a brief description of the graduation status of the least developed countries. Section IV includes some conclusions and recommendations for moving forward with the implementation of the Istanbul Programme of Action.

II. Progress in implementing the Istanbul Programme of Action

5. The least developed countries faced considerable difficulty in 2011, which was the first year of the Istanbul Programme of Action, due to the lingering effects of the global economic and financial crisis of 2008. Nevertheless, the economies of 8 of the 12 grew by more than 6 per cent in 2011.

6. In 2017, one year after the midterm review of the Istanbul Programme of Action, prospects for the continued sustainable and inclusive development of the least developed countries look cautiously optimistic, as they continued their growth in 2015 and 2016, with 6 per cent growth in both years. Their economies are projected to grow by 6.6 per cent in 2017, compared to a regional average of 5 per cent for developing Asia-Pacific economies as a whole (see annex).³

7. Low inflation and subdued commodity prices allowed several least developed countries to pursue accommodative macroeconomic policies in 2015 and 2016. As a consequence, they boosted public investment in infrastructure and increased social spending. However, tepid private investment and sluggish productivity growth remain a challenge for them.

8. The least developed countries are likely to encounter fresh challenges to retaining their existing markets, finding new ones and expanding their export mix, in terms of number of products and value addition, as other developing countries of the region begin to make inroads into their traditional export markets. Security concerns in several countries may also entail a reduction in their fiscal space, adversely affecting overall growth prospects and poverty reduction.

9. The external economic environment will continue to play a critical role in the growth performance of the least developed countries, as almost all of them depend on exports of goods and services and a steady flow of external assistance to sustain growth and development. During the previous two and half decades, the least developed countries successfully undertook first generation reforms typified by liberalization of trade, dismantling of industrial licenses, financial sector deregulation and privatization measures. Least developed countries now need to put in place second generation reforms focused on improving the domestic investment climate and productivity growth based on infrastructure development, increasing investments in new and emerging science, technology and innovation, developing human resources, and enhancing institutional capacity.

10. The least developed countries made significant progress in achieving the Millennium Development Goals, including consistently reducing the incidence of income poverty. However, despite robust growth and rising incomes, inequalities have increased in several least developed countries.³ They therefore need to build on their past achievements so that sustainable and inclusive development, as enshrined in the 2030 Agenda, can become a reality and ease their path to sustainable graduation from the least developed country category.

A. Productive capacity

11. Productive capacity development is crucial to promote the sustainable and inclusive development of the least developed countries and is at the core of their graduation strategy. Asia-Pacific least developed countries are going through slow and limited changes in the sectoral composition of their gross domestic product (GDP), and the value-added share of manufacturing in GDP remains quite low. Myanmar leads the group with a share of 20.7 per cent of value-added manufacturing in GDP, followed by Bangladesh (17.6 per cent) and Cambodia (17.0 per cent) (see annex). Low private investment, infrastructure gaps, lack of skilled labour, financial sector mismanagement, poor capacity of public sector institutions and difficulty in diversifying export markets are some of the most important impediments holding back manufacturing growth in the least developed countries.

12. The agriculture and services sectors continue to dominate these countries' economies, with average shares of 20.95 per cent (2011-2014) and 53.20 per cent (2011-2014) of GDP, respectively.⁶ Both sectors are characterized by low productivity, which hampers efforts to eradicate poverty and hunger. Average gross capital formation in GDP reached 33.4 per cent in 2015 (see annex), which is lower than the 35.86 per cent average of 2011. Bhutan and Timor-Leste experienced the largest contraction, while the rate increased in Bangladesh, Cambodia, Myanmar and Nepal. Such low levels of capital formation are not conducive to generating employment.

13. To achieve a structural break towards a skills-based, productivity-driven and diversified manufacturing sector, the least developed countries must move away from their current dependence on resource-based production structures, including low-wage labour-intensive exports with weak linkages within the domestic economy. Structural transformation is required to take their economies to a higher level and reduce extreme poverty by providing productive employment to a growing labour force.

14. Recognizing that infrastructure is a key component that drives productive capacity development and spurs growth, several least developed countries have significantly increased investments in transport and communications networks, including road and rail links/corridors, seaports, inland ports, waterways, energy, and internet and mobile cellular connectivity.

15. To capture some of these improvements, the secretariat has created an index that measures access to physical infrastructure across 104 countries.⁷ The index shows that across least developed countries, access to physical infrastructure is best in Bangladesh and worst in Afghanistan (table). While some countries have declined in their relative ranking among the least developed countries in Asia and the Pacific, it is important to note that access to physical infrastructure improved across all least developed countries in the region between 2007-2009 and 2013-2015. Yet, different speeds of improvements explain changes in their relative ranking.

⁶ Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States, *State of the Least Developed Countries 2016* (New York, 2016). The study includes Yemen in the group of Asia-Pacific least developed countries. All average figures cited in the present document from this study should be treated as such.

⁷ The index comprises indicators that measure access to transport, energy, information and communications technology, and water and sanitation infrastructure. See E/ESCAP/73/5 for more details; the full methodology is available in ESCAP, *Asia-Pacific Countries with Special Needs Development Report 2017* (forthcoming).

Ranking of the least developed countries in Asia and the Pacific in access to physical infrastructure

<i>Country</i>	<i>2007-2009</i>	<i>2013-2015</i>
Bangladesh	1	1
Bhutan	2	2
Lao People's Democratic Republic	6	3
Nepal	3	4
Vanuatu	5	5
Myanmar	4	6
Cambodia	8	7
Solomon Islands	7	8
Afghanistan	9	9

16. For the least developed countries in the Pacific, the Pacific Region Infrastructure Facility has been the main vehicle for infrastructure development focused on urban development, the energy sector, transport, and water and sanitation.⁸ In Afghanistan, efforts are centred on rebuilding and constructing roads and energy infrastructure. Bangladesh is currently completing seven megaprojects, namely the Padma Multipurpose Bridge project, the Rooppur Nuclear Power Plant project, the Payra Seaport, the Matarbari and Rampal power projects, the Dhaka Metro Rail and the liquefied natural gas terminal. Bhutan has significantly stepped up its investment in hydropower projects and recently concluded agreements to build the 990 MW Punatsangchhu-II hydroelectric project and another four joint-venture power projects which will add 3,000 MW capacity to the national grid. Cambodia has issued the National Strategic Development Plan 2014-2018, which outlines its current infrastructure assets and the strategy to expand those assets. The Lao People's Democratic Republic is completing the Sekong 5 hydropower plant and has completed the trial run of the first turbine Sekaman 1 hydropower plant. Myanmar has undertaken several priority infrastructure projects, including the Hanthawaddy International Airport, the Dawei deep-sea port, the India-Myanmar-Thailand trilateral highway project, the Shwe gas project and the Myitsone hydroelectric power project.

17. However, delays, cost escalation and a shortage of domestic technical and managerial resources in handling megaprojects are among the key challenges that these countries face in implementing infrastructure projects. Other concerns include high maintenance costs, missing links in highways and road networks, and road safety.

18. Several least developed countries have established or are planning to establish special economic zones as part of their strategy to build infrastructure, attract investment, enhance international competitiveness and deepen their productive capacity. Such zones can play a critical role in least developed countries in attracting labour-intensive manufacturing industries from developed countries and the major regional economic powerhouses, such as China and India, as they begin to move up the value chain and pursue more technology and capital-intensive manufacturing activities. Thus, Bangladesh has awarded pre-qualification licenses to 11 local private companies to build 11 special economic zones and has plans to set up four such zones under the public sector. By 2030, the country aims to have 100 economic zones with

⁸ Kiribati, Solomon Islands, Tuvalu and Vanuatu are participating in the Pacific Region Infrastructure Facility.

the potential to create 10 million new jobs and produce goods and services amounting to \$40 billion. As of 2015, Cambodia appeared to have 34 special economic zones. The Lao National Committee for Special Economic Zone and Specific Economic Zone Management was established to oversee the development of some 41 special economic zones, many of which straddle the Chinese-Lao and Thai-Lao borders.

19. In the area of information and communications technology, internet usage in the least developed countries has been growing steadily, from an average of 8.51 users per 100 people in 2011 to 20.04 in 2015 (see annex). The rapid spread of internet technology has contributed to increased e-trading and e-banking, better management of agricultural and farming practices, and the introduction of e-governance, particularly in public service delivery systems. Several least developed countries are also entering global value chains with information technology and communication products. However, there are significant disparities in internet use among different income groups, as both computer prices and internet service charges remain quite high in the least developed countries. Another growing concern is increased cybercrimes, cyberterrorism and other forms of abuse.

20. Mobile cellular subscriptions have also increased significantly, from a simple average of 49.84 subscriptions per 100 people in 2011 to 77.26 in 2015. All least developed countries saw steady growth in mobile phone use. In contrast to internet use, mobile phones have reached most segments of society, as prices of mobile telephones have fallen significantly, bringing about profound changes in peoples' work habits and social interactions. Mobile technology has boosted productivity in key economic activities, as market participants have quicker access and more accurate information about prices. It is highly effective in disaster prevention, mitigation and management. On the downside, increased use of mobile phones and computers is increasing e-waste in the least developed countries.

21. Least developed countries are beginning to make inroads into the world of air transport systems. Air transport freight rose from 284.3 million ton-km in 2011 to 349.0 in 2014, with Bangladesh leading the group.⁶ For air transport passengers carried, the average for the group increased from 27.9 per 1,000 people in 2010 to 37.8 in 2014, with Bhutan, the Lao People's Democratic Republic and Solomon Islands registering the most increases. In shipping, the Liner Shipping Connectivity Index indicates little variation across the years, with the index increasing from 5.8 in 2010 to 7.8 in 2014.

22. Access to sufficient and uninterrupted energy is vital to build productive capacity, promote human development and provide basic services such as health, education, water and sanitation. Access to electricity increased from 39.1 per cent of the population in 2000 to 56.2 per cent in 2012.⁶ Access in urban areas remains higher than in rural areas across all 12 Asia-Pacific least developed countries, with Bhutan being the only least developed country achieving universal access. Much remains to be done to improve the efficiency and quality of the energy supply in the least developed countries, particularly as the sector continues to experience widespread shortages and bottlenecks in production, transmission and distribution systems, with adverse impacts on the investment decisions of the private sector.

23. While least developed countries are on the periphery of global advances in science, technology and innovation, the establishment of the Technology Bank for the Least Developed Countries is an important step in closing that gap, as it promises to enhance national science, technology and innovation capabilities, facilitate structural transformation, improve the lives

of people, and accelerate their integration into the regional and global economy. Science, technology and innovation are also crucial to bring about changes in sustainable agricultural and farming practices and enhance resilience in disaster risk management.

24. Science, technology and innovation capacity, as measured by the number of scientific and technical journals published worldwide per 1 million people, indicates some improvement, from 1.2 journals in 2001-2010 to 1.5 in 2011, but is significantly below the world average.⁶ The number of patents filed, which is another indicator of such capacity, has also been lacklustre among the region's least developed countries, although there has been some improvement, from 443 patents in 2010 to 513 in 2013, most of which were in Bangladesh, Cambodia and Nepal.

25. The least developed countries have made significant progress in developing their private sectors, whose contributions to GDP, employment, exports and domestic tax revenue has been rising. With government policies remaining by and large supportive of the private sector, several least developed countries succeeded in improving their rank in doing business from 2016 to 2017, with Bhutan ranked 73rd and Vanuatu 83rd among the global top 100 in the World Bank's ease of doing business index (see annex).

26. Yet, significant challenges remain for further private sector development in the least developed countries. Policy uncertainty, regulatory deficiencies, infrastructure deficits, credit rationing, shortages of skilled labour and corruption are some of the challenges holding back their development. The sector also needs to evolve and become more forward looking and centred on risk-taking, entrepreneurship, the application of new and emerging technologies and the corporatization of management structures and business practices.

B. Agriculture, food security and rural development

27. Agriculture plays a dominant role in most of the least developed countries in employment generation and food security and accounts, on average, for 24 per cent of value added to the GDP (see annex). This sector employs an average of 60 per cent of the labour force in these countries; it remains the single most important source of livelihood for rural populations and is critical for ensuring food security.

28. Several least developed countries have achieved remarkable progress in the production of food grain, vegetables, fruits, poultry and freshwater fish. Bangladesh has increased its grain production several times since 1970, even as its arable land has shrunk considerably. It now occupies the fourth position in freshwater fish production after China, India and Viet Nam. Similar gains in grain production have been made by Cambodia, the Lao People's Democratic Republic and Myanmar; Myanmar has the potential to become the granary of Asia.

29. Total government expenditure on agriculture (including forestry and fishing) has increased as a percentage of GDP, averaging 1.58 per cent in 2010 to 2.56 per cent in 2013.⁶ Yet, this falls significantly below rates required to ensure food security, achieve the Sustainable Development Goals and transform agriculture. The area harvested, crop intensity, area irrigated, fertilizer used and energy consumed in agriculture have generally been increasing with greater demand for food due to rising incomes, higher population pressures and rapid urbanization. Global demand for food is

projected to increase by at least 60 per cent by 2050,⁹ and least developed countries will be part of that trend.

30. Moreover, agriculture is still trapped in low-productivity, smallholder activities, and it suffers from an inadequate supply of critical inputs, including rural infrastructure, affordable credit, technology and marketing links. Rural supply chains are either weak or non-existent, preventing farmers from obtaining fair prices for farm outputs. Frequent droughts, floods, river erosion, seawater intrusions and the impacts of climate change represent major challenges for agriculture in the least developed countries, requiring a broad-based approach to transforming food and agricultural systems. These effects are likely to intensify⁹ and they complicate least developed countries' efforts to achieve food security and reduce poverty.

31. As a result, malnutrition in the least developed countries is still largely a rural phenomenon, as most of the income-poor and vulnerable people live in rural areas. Low productivity and low value-added occupations generate low per capita incomes, which in turn adversely affect nutritional status. Limited health, education, water and sanitation services are often delivered inefficiently and not equitably, adding to difficulties in improving the nutritional status in most of the least developed countries. Despite these obstacles, the prevalence of malnutrition measured by weight for age has gone down from an average of 37.5 per cent of children under the age of 5 for the period 2000-2008 to 30.2 per cent for the period 2009-2014.

C. Trade and commodities

32. As global trade remains weak, external demand would be of little immediate help in boosting growth in the region.³ Moreover, weak external demand and rising protectionist tendencies create uncertainty with regard to global trade recovery. This slowdown in global trade, together with supply-side impediments, has adversely affected the trade and growth performance of least developed countries in the Asia-Pacific region.

33. Trade is vital for these countries to bring about structural transformation, as it provides access to international finance and technology, connects value chains and helps to overcome constraints imposed by limited domestic economies. The Istanbul Programme of Action therefore calls for increasing the least developed countries' share of exports in global exports to 2 per cent, including by broadening their export base.

34. The potential of international trade as a vehicle for the growth and development of the least developed countries is yet to be fully exploited, as their share of global exports remains disappointing: it increased from 0.2942 per cent in 2010 to 0.3444 per cent in 2014. In terms of absolute volume, however, several least developed countries, including Bhutan, Bangladesh, Cambodia, the Lao People's Democratic Republic and Myanmar, have seen robust year-to-year growth in their export values. Several least developed countries in the Pacific have tended to perform poorly as merchandise exports from developing Pacific island economies declined sharply by 9.2 per cent in 2015,¹⁰ this was largely a reflection of the regional trend. High trade costs faced by this group also held back their export competitiveness and contributed to the continued challenge of reaching markets in developed countries.

⁹ Food and Agriculture Organization of the United Nations, *The State of Food and Agriculture 2016: Climate Change, Agriculture and Food Security* (Rome, 2016).

¹⁰ See www.unescap.org/sites/default/files/Small%20Pacific%20Islands.pdf.

35. Exports are narrowly based with limited destination markets. For least developed countries in the Pacific, Australia, Japan, New Zealand and recently China account for the lion's share of exports. For other least developed countries, Canada, China, the European Union, North America and Thailand are the main export markets for manufactured products. Textiles, clothing, agricultural products and energy and mining products are the main exports. The use of advanced technology and access to regional and international value chains remains limited.

36. Despite an unfavourable external environment and structural constraints, several least developed countries have succeeded in increasing merchandise exports. Bangladesh experienced export growth of 14 per cent per year during 2010-2015, which was significantly higher than the regional growth rate of 7.5 per cent.¹¹ In 2015, when the region saw a sharp decline in exports by 9.7 per cent, Bangladesh's exports grew by 6.5 per cent due to strong competitiveness in textiles and clothing. Cambodia's merchandise exports grew by 23.5 per cent in 2010-2015, with its garment manufacturing industry accounting for 80 per cent of its total exports. By contrast, although the Lao People's Democratic Republic achieved export growth of 7.6 per cent during the same period, it experienced severe challenges in 2015 when exports contracted by 7.5 per cent.¹¹ Several natural disasters, the collapse in commodity prices and the economic slowdown in Thailand contributed to this contraction.

37. There have been several international efforts and support measures to increase the share of the least developed countries in global exports. Duty-free and quota-free market access, the Aid for Trade initiative and the European Union's Everything but Arms initiative have contributed to increasing the least developed countries' market access and improving their supply capacity. Trade facilitation measures under the World Trade Organization (WTO) Trade Facilitation Agreement are likely to significantly boost the least developed countries' trade capacity and export performance. Australia and New Zealand have 100 per cent and the European Union has 99 per cent duty-free and quota-free market access for least developed countries' exports. Several developing countries, including China, India and Thailand, also provide preferential market access to least developed countries.

38. Market access to developed economies is dependent on the nature of the products, with manufactured products (except textiles and clothing) and agricultural products enjoying almost complete free market access (97 per cent and 98 per cent, respectively). However, the excluded 3 per cent from the list of manufactured products are often the most important products for the least developed countries in Asia and the Pacific, which limits their ability to utilize market access provisions. Ongoing tariff liberalization has also led to preference erosion, a trend that could be further accelerated with the implementation of multilateral, bilateral and regional free trade agreements. Market access also critically depends on the design and application of rules of origin. There is a need to simplify these, as has been done by the European Union and Japan. The tenth WTO Ministerial Conference, held in December 2015, saw the adoption of detailed guidelines for the requirements for the assessment of transformation and rules of cumulation, which should help in simplifying the rules of origin.

39. All developed economies must grant full and complete duty-free and quota-free market access to all least developed country products if the

¹¹ ESCAP, *Asia-Pacific Trade and Investment Report 2016: Recent Trends and Developments* (Bangkok, 2016).

relevant targets set in the Istanbul Programme of Action and the Sustainable Development Goals are to be achieved. At the same time, least developed countries with export structures dominated by textile and clothing should diversify their export base and move into more value-added products and link up with regional and international value chains.

40. The export of commercial services, such as tourism, communications and transport services, is on the rise in several least developed countries; Cambodia, the Lao People's Democratic Republic, Myanmar, Nepal, and several least developed countries in the Pacific have experienced robust growth in their tourism services sector. The adoption of the least developed country services waiver in 2011 and its extension to 2030 at the tenth WTO Ministerial Conference are expected to further stimulate the growth of these services.

41. The WTO Trade Facilitation Agreement has significant potential for improving the international competitiveness of the least developed countries. Implementation of the Agreement is expected to reduce the costs of doing business by boosting digitization of customs clearance and documentation for the least developed countries' trade. It is also likely to ease other compliance issues and expedite the movement, release and clearance of merchandise goods. Successful and timely implementation of the Agreement is expected to boost global merchandise trade by \$1 trillion, offering further opportunities to least developed countries.¹²

D. Human and social development

42. Human and social development is critical for promoting the sustainable and inclusive development of the least developed countries. Although least developed countries as a group have made important strides, a wide range of constraints, including poverty, hunger, lack of essential services and poor governance, continue to hold back their overall progress in human and social development.

43. The least developed countries have done well in primary education, with net enrolment for both sexes reaching almost 95 per cent in 2014. Net enrolment ratios in secondary education have increased but remain lower than for primary education. High enrolment in primary education has significantly improved opportunities for accessing basic services and reducing poverty in the least developed countries, but the quality of education and low completion rates remain significant challenges. Compulsory school meals and free textbooks have proven useful in boosting attendance and retention in primary and secondary schools. Better trained and well-paid teachers, higher teacher-pupil ratios and increased investments in educational facilities are additional options to be pursued.

44. A perennial problem afflicting the education and human resource development processes and systems in the least developed countries is the mismatch between the demand and supply of educated young people. Most resources and policy attention are still devoted to general education, with no systematic links between the needs of the economy and the supply of human resources. As the least developed countries undergo significant changes, demand for skilled and semi-skilled workers and professionals is rising fast. There is therefore an urgent need to reform education and human resource development policies, systems and institutions. Increased investment in

¹² WTO, *World Trade Report 2015: Speeding Up Trade – Benefits and Challenges of Implementing the WTO Trade Facilitation Agreement* (Geneva, 2015).

technical and vocational education and training, including enhanced opportunities for on-the-job training and learning, can also contribute to closing or narrowing the skills gap in least developed countries.

45. In population and primary health, all 12 least developed countries in Asia and the Pacific made progress in reducing under-5 and infant mortality rates from 2011 to 2015, although absolute numbers remain unacceptably high. Bangladesh, Bhutan, Cambodia, Nepal and Timor-Leste reached the Millennium Development Goal target of reducing under-5 mortality by two thirds or more.¹² While data gaps on maternal mortality make it difficult to judge the latest situation in the least developed countries, available information indicates that progress has been rather mixed, with Bhutan, Cambodia, the Lao People's Democratic Republic, Nepal and Timor-Leste as early achievers, and Afghanistan, Bangladesh, Kiribati, Myanmar, Solomon Islands and Vanuatu having made slow progress.¹³

46. In literacy among youth (aged 15-24), Bangladesh, Myanmar, Nepal and Vanuatu improved their performance during 2012-2013, compared to 2000-2009. They also achieved similar progress in female youth literacy, with Bangladesh and Nepal making the most gains. Yet, unemployment among youth is one of the most pressing challenges in the least developed countries and reflects some of the difficulties in matching skill requirements and asymmetric information in the labour and capital markets. Moreover, high economic growth in several least developed countries has not translated into job growth, and youth are no exception in this area.¹⁴

47. As least developed countries are making the transition from predominantly agricultural-based economies to manufacturing-oriented economies, the link between growth and job creation can be expected to be weak and disproportionately affect youth. Insecure and vulnerable employment also poses a challenge for youth in the least developed countries. Labour and capital market imperfections in the forms of entry-exit barriers, lack of adequate training opportunities and limited access to financial services contribute to high youth unemployment.

48. Access to shelter, water and sanitation remains problematic in the least developed countries. Notwithstanding general progress, there is an acute shortage of housing for the urban poor and vulnerable groups, leading to rapid growth in urban slums with poor water and sanitation facilities. In rural and remote areas, housing for the poor and other vulnerable groups also remains a daunting challenge, which is intensified by the impact of climate change. Frequent tropical cyclones in the least developed countries in the Pacific, river erosion in Bangladesh, severe flooding and landslides in the Lao People's Democratic Republic and a recent earthquake in Nepal are some examples of natural disasters which have caused massive loss of housing assets, thereby aggravating the housing challenge.

49. Improved drinking water and sanitation are vital to reducing child and maternal mortality. Bhutan has made the most progress, providing universal access to improved water in 2015, closely followed by Nepal (91.6 per cent), Tuvalu (97.7 per cent) and Vanuatu (94.5 per cent). Yet, the least developed countries' overall performance in using improved water supply and sanitation

¹³ Asian Development Bank, ESCAP and United Nations Development Programme, *Making It Happen: Technology, Finance and Statistics for Sustainable Development in Asia and the Pacific – Asia-Pacific Regional MDGs Report 2014/15* (Bangkok, 2015).

¹⁴ See ESCAP, *Economic and Social Survey of Asia and the Pacific 2016: Year-End Update, December 2016* for a detailed discussion of this phenomenon in the region.

has been less successful, with only the Lao People's Democratic Republic and Myanmar reaching 70 per cent or more coverage.

50. Gender equality and the empowerment of women constitute one of the fundamental building blocks for achieving the Sustainable Development Goals in the least developed countries. The task of ensuring equal participation of men and women in economic, social and political arenas is still incomplete. Although female labour force participation is increasing in the least developed countries, women are mostly found in low-wage informal sector occupations, and they face systemic discrimination in terms of wages and occupational mobility. They are also found mostly in very vulnerable employment with insecure and unsafe working environments.

51. Women and girl children also face significant barriers in availing themselves of educational opportunities, although the enrolment rates of girl children in primary education have been rising steadily in these countries. Entry to secondary and tertiary education becomes increasingly difficult, particularly for those coming from rural and vulnerable communities. Household poverty, early marriage, societal preference for boys' education over that of girls' and locational disadvantages are some of the additional barriers working against women's and girl children's access to education. Women in most of the least developed countries also find it difficult to access credit and other financial resources, technology, land and marketing links; they also face barriers to asset acquisition and the transfer of property due to complicated inheritance laws.

52. Laudably, several countries have strengthened social protections. For instance, Bangladesh has introduced several schemes, including old-age allowances, a subsidized rice programme, and health-care facilities for the ultra-poor and housing for landless people and those losing their homesteads due to river erosion. Bhutan has instituted free education and health care as part of its social protection system; it also provides an old-age pension to its civil servants, members of the armed forces and private sector employees. Kiribati and Nepal have also introduced universal old-age pension schemes.

E. Multiple crises and other emerging challenges

53. The least developed countries are some of the most vulnerable countries in the region and face growing multiple crises and emerging challenges. They were badly affected by the food-fuel crisis that hit the global economy in 2005-2006, when commodity prices reached historically high levels. The 2008 global economic and financial crisis significantly impacted their growth and contributed to significant losses in income and employment. The least developed countries in the Pacific were particularly hard hit, as exports and remittances fell and the value of assets held in off-shore trusts significantly depreciated.

54. One of the biggest challenges faced by the least developed countries in the region is the rapid and inexorable march of climate change and looming environmental threats. Extreme weather events such as high temperatures, floods, cyclones and sea level rise are imposing high economic and social costs on the least developed countries. Climate change could reverse the region's progress in reducing poverty since 1990 and plunge more than 100 million people into extreme poverty by 2030,¹⁵ with a good number of the additional poor people coming from the least developed countries.

¹⁵ ESCAP, *The Economics of Climate Change in the Asia-Pacific Region* (ST/ESCAP/2761).

Climate change migration is already on the rise in the least developed countries in the Pacific, particularly in Kiribati, Solomon Islands, Tuvalu and Vanuatu.

55. There is an urgent need for the secretariat of the United Nations Framework Convention on Climate Change to fast-track the implementation of the Paris Agreement, which came into force on 4 November 2016 and which symbolizes the commitment of the international community to address climate change in a concerted manner and to stop inflicting further damage on the environment. This also includes expediting access to climate change finance.

56. Although there has been some progress in fulfilling the commitments of the international community to offer financial and technological support to the least developed countries, the latter's need for financial resources far exceeds what is currently available through bilateral and multilateral sources. The Global Environment Facility, the Green Climate Fund, the International Development Association's Crisis Response Window and the Least Developed Countries Fund are some of the multilateral funds which the least developed countries can potentially access to meet their climate financing needs.

57. The least developed countries have adopted several measures and entered into regional cooperation arrangements and mechanisms to increase their climate resilience. At the Leaders' Summit of the Coalition of Low Lying Atoll Nations on Climate Change, the Funafuti Declaration on climate change in Tuvalu was adopted on 7 October 2016. Kiribati and Tuvalu will receive seed funding from ESCAP to support national activities that focus on policy research, exchanging information, capacity-building and advocacy. Afghanistan has established the National Committee for the Implementation of the Paris Agreement to facilitate and coordinate its implementation. Bangladesh has set up the Climate Change Trust Fund with an outlay of \$400 million. Bhutan is considering ratifying the Paris Agreement at the winter session of its National Assembly. Nepal has adopted the Climate Change Policy and National Adaptation Programme of Action. As part of the Global Climate Change Alliance, Cambodia, the Lao People's Democratic Republic and Myanmar are working with their development partners to strengthen their institutional capacity in climate change adaptation and resilience.

58. The least developed countries, however, remain extremely vulnerable to natural disasters. In recent years, the frequency and intensity of natural disasters have significantly increased, resulting in enormous human and economic costs. Cyclone Pam in Tuvalu and Vanuatu in March 2015, the earthquake in Nepal in April 2015, unprecedented floods in Solomon Islands in 2014 and severe floods in Myanmar in June, July and August 2015 are some of the recent examples of natural disasters hitting the least developed countries, causing loss of lives and damaging their infrastructure, housing, water and sanitation facilities, irrigation systems and standing crops.

F. Mobilizing financial resources for development and capacity development

59. Mobilizing financial resources from domestic sources has become a cornerstone of growth strategies and fiscal policies in the least developed countries. Results, however, remain mixed and uneven. Gross domestic savings as a percentage of GDP remained negative for Afghanistan and Timor-Leste in 2011-2015, at approximately -21.77 per cent and -52.8 per cent, respectively. It was stagnant in Bangladesh during the same period, hovering

at approximately 21 per cent. Bhutan benefited from revenues from its energy sales and achieved an average rate of 32.72 per cent. Low per capita income, shallow financial markets, weak banking oversight and non-inclusive financial systems are some of the key barriers hindering mobilization of domestic savings.

60. Government revenue (excluding grants) as a percentage of GDP remains very low, except in Bhutan, Kiribati, Solomon Islands and Timor-Leste (see annex) and falls significantly below the desired rate of 20 to 30 per cent. Government revenue remains the main source of government expenditure and is an important source for development expenditure. Reforms in tax administration and collection, including increased transparency and greater accountability in the use of revenue collected, could boost government revenue in the least developed countries.

61. Official development assistance (ODA) constitutes a vital component of development finance that has supported the growth and development of least developed countries. The average net disbursement of ODA to the least developed countries in the region increased from 2011 to 2013, with a slight dip in 2014. Afghanistan has retained its top position by far with an average ODA net disbursement of around \$6 billion per year. Myanmar saw a steep rise in 2013, with a net disbursement of \$3.9 billion as the reform process took off, followed by Bangladesh, with an average net disbursement of \$2 billion. Cambodia and Nepal also received large amounts.

62. ODA has played a key role in building the productive capacity of these countries and contributed to significant progress in achieving the Millennium Development Goals. In several instances, ODA catalysed both foreign direct investment (FDI) and domestic private investment. By 2014, eight countries on the Development Assistance Committee of the Organization for Economic Cooperation and Development, namely Belgium, Denmark, Finland, Ireland, Luxembourg, Norway, Sweden and the United Kingdom of Great Britain and Northern Ireland, provided 0.15 per cent of their gross national income as ODA to least developed countries.

63. Net inflows of FDI to the least developed countries have continued to grow, with the total amount received by the landlocked developing countries in the region increasing from \$5.2 billion to \$7 billion in 2015, significantly adding to their productive capacity development and export growth. Growing per capita income, low wage costs, regulatory reforms and increased fiscal and other incentives have influenced this trend. The largest recipients of FDI in the region are Bangladesh, Cambodia, the Lao People's Democratic Republic and Myanmar, which have seen very rapid growth in their middle classes and increased purchasing power of their population. In Bangladesh, most of the FDI went into banking, textiles, drinks and beverages and the energy sector, with the United States and the United Kingdom as the largest investors. In Cambodia, textiles and the services sector, including tourism, attracted most of the FDI. In the Lao People's Democratic Republic, most of the FDI went to the hydropower sector and to set up manufacturing industries in the newly established special economic zones. Agroprocessing, tourism, transportation and mining also attracted sizeable FDI. In Nepal, most of the FDI went to hydropower, consumer goods and the tourism sectors, with China replacing India as the largest source of FDI.

64. The least developed countries have managed to keep their debt and debt service obligations quite low. In several least developed countries, total reserves as a percentage of external debt exceeds 100 per cent (see annex). Total debt service requirements as a percentage of exports of goods, services

and income has been kept quite low, ranging from 10.66 per cent in Bhutan to 1.24 per cent in Vanuatu.

65. Personal remittances received by the least developed countries have steadily grown from \$17.1 billion in 2011 to \$23.5 billion in 2015 (see annex). Remittances contributed to GDP growth, employment creation, small and micro-business development and increased investments in health and education. By smoothing out consumption, remittances continue to play a key role in reducing poverty, particularly in rural areas. Bangladesh and Nepal remained the largest recipients of personal remittances among the 12 least developed countries, with more than \$14 billion and \$5.4 billion, respectively, in 2015. These flows accounted for 9.15 per cent of GDP in Bangladesh in 2015, 27.52 per cent in Nepal and 11.03 per cent in Tuvalu.

G. Good governance at all levels

66. The least developed countries recognize that good governance is a key building block in ensuring inclusive and sustainable development. Thus, all 12 least developed countries have either ratified or accepted the United Nations Convention against Corruption.

67. Yet, least developed countries face several challenges to ensuring governance, most of which can be traced to inadequate institutional capacity and the lack of accountability and transparency. Weak legal and regulatory systems and market imperfections lead to inefficiencies and create opportunities for corruption and misallocation of resources. Corruption in the form of embezzlement of public resources not only has detrimental effects on growth, it also widens income and gender inequality.¹⁶ Public procurement based on non-economic considerations misallocates resources and promotes rent-seeking activities which further weaken governance by favouring economic and political elites. Corrupt practices in the delivery of public services, such as health, education, water and sanitation, have significant and far-reaching detrimental effects on the poor and other vulnerable groups, making it difficult to achieve the Sustainable Development Goals.

68. The least developed countries have adopted several measures to strengthen governance. Increasing adoption and application of e-governance has been one notable development in several least developed countries. Investments in education, particularly at primary and secondary levels, have increased, both to create awareness about basic rights and to benefit from e-governance systems and protocols. Several least developed countries have undertaken awareness-raising campaigns and brought about regulatory reforms to improve transparency and accountability. There has been a greater movement towards compliance with international frameworks and arrangements such as the Extractive Industries Transparency Initiative.

III. Graduation from the least developed country category

69. The least developed countries have made significant progress towards graduation, reflecting their commitment made in the Istanbul Programme of Action of enabling half of the least developed countries to meet the criteria for graduation by 2020. Projections by the United Nations Conference on

¹⁶ See ESCAP, *Economic and Social Survey of Asia and the Pacific 2016: Year-End Update, December 2016* for a discussion of the adverse effects on investment decisions.

Trade and Development indicate that all 12 least developed countries in the region will graduate by 2025.¹⁷

70. Employing a gap analysis approach to the present graduation thresholds and the latest performance of the least developed countries in each of the criteria, ESCAP research shows that 10 out of the 12 least developed countries have already met the criteria for graduation. Only Afghanistan and Cambodia are not projected to achieve full statistical eligibility for graduation by 2020. However, Cambodia has already met one criterion and is 21 per cent away from the gross national income per capita criteria and 17 per cent away from the economic vulnerability criteria. Given the country's present growth trajectory, it can be expected that it will reach the threshold very soon. Afghanistan faces difficult challenges and may need enhanced international support and domestic policy reorientation to graduate from the least developed country category, given lingering security concerns.

71. However, the high level of economic vulnerability continues to be of great concern for the least developed countries, especially for the small island developing States. The latter remain particularly vulnerable to tropical cyclones and associated storm surges, which may be further exacerbated by climate change. Such vulnerability has delayed recommendation for graduation in the past, as meeting the graduation criteria by itself does not imply that a country is resilient to earthquakes, tsunamis, cyclones or other climate change-related consequences.

IV. Conclusions and recommendations

72. Despite significant challenges and obstacles, the least developed countries continue to make good progress in implementing the Istanbul Programme of Action. However, further progress will require enhanced commitment from all stakeholders and the speedy implementation of the commitments made by the international community.

73. The Commission may wish to consider how the share of manufacturing in total value added can be increased in the least developed countries, with a focus on employment generation and graduation to higher-value-added products. Although progress has been made in strengthening productive capacity, challenges remain.

74. The Commission may therefore also wish to consider how attention can be focused on productive capacity development through increased investment in roads, railways and other forms of physical infrastructure, greater use of information and communications technology, skills development, increased application of science, technology and innovation, better access to finance, and private sector development.

75. The Commission may wish to encourage better use of agricultural inputs and sustainable agricultural practices in member States to bring about significant change in agricultural productivity and to improve prospects for raising agricultural incomes. This is critical in least developed countries as agriculture remains the dominant sector, with low productivity and widespread rural poverty and incidence of hunger.

76. The Commission may wish to encourage member States to grant duty-free and quota-free market access to all least developed countries' exports

¹⁷ *The Least Developed Countries Report 2016: The Path to Graduation and Beyond - Making the Most of the Process* (United Nations publication, Sales No. E.16.II.D.9).

and to simplify rules of origin, as least developed countries' share of global exports remains insignificant and falls far below the target set in the Istanbul Programme of Action. It may also wish to guide the secretariat on strengthening capacities to effectively implement multilateral trade facilitation measures.

77. The Commission may wish to consider how skills training and education can be made more relevant to the needs of the economy and society. While the quality of human resources has improved significantly, it still falls below the level required to sustain growth and development in least developed countries. Thus, while enrolment rates in primary and secondary education have gone up, a large number of children drop out of school due to a variety of factors, such as poverty, early marriage and lack of resources.

78. The Commission may also wish to provide guidance to the secretariat on the consideration of which measures are needed to improve the climate resilience of the least developed countries. This is important as least developed countries remain highly vulnerable to economic shocks, climate change consequences and natural disasters. Indeed, sea level rise and other associated consequences of climate change pose existential threats to the least developed countries in the Pacific, while the intensity and frequency of natural disasters have increased, causing significant loss of assets and lives.

79. The Commission may wish to guide the secretariat on strengthening the capacities that assist the least developed countries in initiating policy and regulatory reforms and investing in infrastructure and institutional capacity-building to mobilize domestic resources, secure additional ODA, attract FDI and increase personal remittances. Although results have been by and large encouraging, more needs to be done by the least developed countries and their development partners. More efforts should be made to encourage savings and greater revenue generation by broadening the tax base. FDI needs to be broad based to generate more employment and boost exports. The developed countries need to meet their commitment of providing 0.2 per cent of gross national income as ODA to least developed countries and ensure more predictability in such flows.

80. Governance remains a challenge in some least developed countries. In addition to e-governance, the Commission may wish to urge member States to strengthen institutional capacity and promote transparency, accountability and rule of law.

81. The prospects for graduation from the least developed country category have improved as a result of more focused implementation of the Istanbul Programme of Action and the renewed commitment to the Sustainable Development Goals. However, the Commission may wish to consider how graduation from the least developed country category can be made sustainable and beneficial to all segments of society.

Annex

Selected statistics, least developed countries in the Asia-Pacific region

<i>Country</i>	<i>GDP growth (Annual %)</i>	<i>Manufacturing, value added (% of GDP)</i>	<i>Gross capital formation (% of GDP)</i>	<i>Internet users (per 100 people)</i>	<i>Rank in World Bank's ease in doing business index</i>	<i>Agriculture, value added (% of GDP)</i>	<i>Net enrolment rate in primary education</i>	<i>Revenue, excluding grants (% of GDP)</i>	<i>External debt stocks (% of GNI)</i>	<i>Personal remittances, received (Millions of USD)</i>
	<i>2017</i>	<i>2015</i>	<i>2015</i>	<i>2015</i>	<i>2017</i>	<i>2015</i>	<i>2015</i>	<i>Average 2011-2015</i>	<i>latest</i>	<i>2015</i>
Afghanistan	3.4	12.0	19.78	8.26	183	21.7	85.13	10.3	12.6	301.17
Bangladesh	6.8	17.6	28.89	14.40	176	15.5	96.26	10.9	18.6	15 387.89
Bhutan	6.6	8.3	54.00	39.80	73	17.4	88.98 ^c	20.2	105.8	19.66
Cambodia	6.9	17.0	22.45	19.00	131	28.2	88.86	13.6	54.6	397.42
Kiribati	2.5	4.8 ^a	40.00 ^e	13.00	152	23.0 ^a	96.88	77.1	..	15.99
Lao People's Democratic Republic	7.0	9.4	32.77	18.20	139	27.4	92.71	16.9	99.6	93.00
Myanmar	8.0	20.7	..	21.80	170	26.7	94.53 ^c	5.5 ^f	..	386.78
Nepal	3.8	6.3	38.78	17.58	107	33.0	97.13	17.1	19.6	6 729.94
Solomon Islands	2.5	4.8 ^b	14.59 ^b	10.00	104	35.6 ^b	..	34.5	18.0	18.59
Timor-Leste	5.5	0.9 ^c	37.09	13.40	175	19.8 ^c	97.92	294.7	..	61.59
Tuvalu	3.0	1.1 ^d	..	42.70	..	21.7	98.89	4.06
Vanuatu	3.8	3.7 ^c	26.43 ^c	22.35	83	28.2 ^c	..	18.5	21.1 ^c	24.07
Average for least developed countries in the Asia-Pacific region	4.98	13.0	33.39	20.04	136	24.0	94.22	51.4	47.0	1 953.35

Source: ESCAP calculations, based on World Bank, World development indicators database. Available from data.worldbank.org/data-catalog/world-development-indicators (accessed 4 January 2017).

Abbreviations: GDP, gross domestic product; GNI, gross national income; USD, United States dollars.

^a Data from 2013.

^b Data from 2006.

^c Data from 2014.

^d Data from 2011.

^e Data from 1992.

^f Data averaged from 2001-2005.