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Summary of the Asia-Pacific Countries with Special Needs Development Report 2021: Strengthening the Resilience of Least Developed Countries in the Wake of the Coronavirus Disease Pandemic

Note by the secretariat

Summary

The final year of the Programme of Action for the Least Developed Countries for the Decade 2011–2020 (Istanbul Programme of Action) was marked by an unprecedented global pandemic, which significantly and adversely impacted the economies of Asia-Pacific least developed countries.

The present document is based on the key findings of the Asia-Pacific Countries with Special Needs Development Report 2021: Strengthening the Resilience of Least Developed Countries in the Wake of the Coronavirus Disease Pandemic and the data and statistical information presented therein. It contains a summary of the progress made and challenges encountered by the Asia-Pacific least developed countries in implementing the Istanbul Programme of Action. It also includes an examination of the economic and social impacts of the ongoing coronavirus disease pandemic on these countries, and some perspectives on how the pandemic is likely to affect their prospects for progressing towards graduation from the category of least developed countries and achieving the Sustainable Development Goals by 2030.

The Report may inform the process leading to the adoption of the programme of action for the least developed countries for the next decade. Thus, the Economic and Social Commission for Asia and the Pacific may wish to deliberate on the policy priorities highlighted in the present document and provide the secretariat with further guidance on which of these should be explored further with a view to implementing them at the country level. The guidance would give shape to the secretariat’s forthcoming analytical work and, more importantly, inform its planning and formulation of technical assistance and capacity-building projects for least developed countries.
I. Introduction

1. There are 12 least developed countries in the Asia-Pacific region: Afghanistan; Bangladesh; Bhutan; Cambodia; Kiribati; Lao People’s Democratic Republic; Myanmar; Nepal; Solomon Islands; Timor-Leste; Tuvalu; and Vanuatu. Four of them (Afghanistan, Bhutan, the Lao People’s Democratic Republic and Nepal) are also landlocked developing countries, and five (Kiribati, Solomon Islands, Timor-Leste, Tuvalu and Vanuatu) are also small island developing States. Most of them made significant progress in implementing the Programme of Action for the Least Developed Countries for the Decade 2011–2020 (Istanbul Programme of Action). Steady economic growth helped to reduce income poverty in these countries and facilitate their progress towards meeting several targets of the Millennium Development Goals. The decade covered by the Istanbul Programme of Action was also marked by the graduation of three Asia-Pacific countries from the category of least developed countries (Maldives in 2011, Samoa in 2014 and Vanuatu in 2020), while five others became eligible for graduation. In the implementation of the Programme of Action, however, the least developed countries encountered significant challenges and continued to face vulnerabilities. These challenges, if not addressed, will have an enduring impact on the resilience of the countries, even if they manage to graduate from the category of least developed countries.

2. The most severe recent challenge encountered by the least developed countries is the coronavirus disease (COVID-19) pandemic, which has dimmed prospects for graduation and smooth transition as well as for realizing the Sustainable Development Goals. Although initially viewed as a public health disaster, COVID-19 rapidly turned into an unprecedented economic and social crisis. Most if not all least developed countries have experienced considerable reductions in economic growth, widespread unemployment, sharp contractions in international trade, a slowdown in the flow of external resources and an almost complete halt in the travel and tourism sectors.

3. Despite the relatively small number of COVID-19 cases reported in the least developed countries, the pandemic quickly developed into a multidimensional crisis, owing in part to their high levels of external dependency and exposure as well as their low levels of resilience, defined as the capacity to prepare for, absorb and recover from economic and non-economic shocks. The implications of such factors have been demonstrated time and again, for example during the global financial and economic crisis of 2008 and the commodity price shocks of 2014–2015 as well as by several natural disasters such as cyclones, floods and earthquakes.

4. The Fifth United Nations Conference of the Least Developed Countries, to be held in 2022, will offer a fresh opportunity to craft a new international agenda for supporting these countries in achieving sustainable development and for putting them on a firm footing for graduation. The programme of action for the least developed countries for the next decade must therefore address the unfinished business of fully implementing the Istanbul Programme of Action, achieving the Sustainable Development Goals by 2030 and overcoming the devastating impacts of the COVID-19 pandemic.

5. The implementation of the Istanbul Programme of Action and the impacts of the COVID-19 pandemic highlight the need to take a more integrated approach...
approach in order to increase economic diversification and structural transformation; reduce vulnerability to external shocks and disasters; and go beyond income poverty to address multidimensional poverty in the least developed countries. Doing so will help to build the resilience and capacities of least developed countries to address new and emerging challenges, such as the COVID-19 pandemic, and take advantage of opportunities that lie ahead.

6. Highlighted in section II are some of the key accomplishments of Asia-Pacific least developed countries with regard to the targets and goals of the eight priority areas for action listed in the Istanbul Programme of Action. In section III, attention is drawn to the impacts, challenges and gaps that these countries are now facing in view of the COVID-19 pandemic. In section IV, lessons learned and policy priorities are identified for the programme of action for the least developed countries for the next decade. A conclusion is presented in section V, and issues for consideration by the Commission are presented in section VI.

II. Progress in the implementation of the Programme of Action for the Least Developed Countries for the Decade 2011–2020: priority areas for action

7. The aggregate gross domestic product (GDP) growth for the group of Asia-Pacific least developed countries was 6.4 per cent during the period 2011–2019, while the simple average growth was less than 5 per cent. Only Cambodia (7.1 per cent) and the Lao People’s Democratic Republic (7.1 per cent) were able to meet the annual economic growth target of 7 per cent per annum set under the Istanbul Programme of Action, though Bangladesh (6.9 per cent) and Myanmar (6.5 per cent) came close. In contrast, the five small island least developed countries in the region achieved a simple average growth rate of only 3.6 per cent during the same period. Limited economic diversification, dependence on natural resources, small size of the domestic economy and high cost of trade were among the major obstacles to economic growth in these countries.

8. It is likely that economic growth in the final year of the implementation period of the Istanbul Programme of Action will prove to have been much lower in most countries, with an estimated weighted average of 2.5 per cent (simple average of –2.3 per cent) in 2020 because of severe COVID-19-related disruptions. High and steady economic growth will remain critical for these countries to meet their development challenges as they enter the next decade, particularly to reduce rates of income poverty.

A. Productive capacity

9. Most of the Asia-Pacific least developed countries achieved only small changes in the composition of their GDP by major sectors, reflecting only limited progress in productive capacity and structural transformation. Limited structural transformation makes the countries less resilient to economic shocks. Worryingly, the share of manufacturing value added in GDP has either fallen or remained almost unchanged for all except Bangladesh, Cambodia and Myanmar. The average share of agriculture in GDP in Asia-Pacific least developed countries declined from 25.6 per cent in 2010 to 18.4 per cent in 2019, while the corresponding share of services value added rose by 3 percentage points to reach

approximately 45 per cent of GDP in 2019, albeit mostly in low-productivity informal services.

10. Low private investment, infrastructure gaps, lack of skilled labour, poor capacity of public sector institutions and difficulty in diversifying export markets are some of the impediments to manufacturing growth and productive capacity development. Further efforts will therefore be required to diversify the manufacturing base, seek out new markets, adopt new and innovative forms of manufacturing technologies, invest in new skills and improve investment climates to increase productive capacity.

1. **Infrastructure**

11. Overall, the provision of physical infrastructure has improved across most Asia-Pacific least developed countries. However, the general poor quality of road and port infrastructure continues to contribute to high transportation costs. Recognizing the importance of physical infrastructure development for improving productive capacity and promoting growth, the Government of Bangladesh is implementing 18 road and highway projects through public-private partnerships; the Government of Bhutan has been implementing its Road Sector Master Plan 2007–2027 to expand road transport connectivity; the Governments of Cambodia and Myanmar are implementing numerous large-scale infrastructure development projects; and the Government of Nepal has launched upward of 20 infrastructure projects under its National Pride Projects programme, which will significantly contribute to the development of its physical infrastructure.

12. Information and communications technology (ICT) offers significant opportunities for the least developed countries to overcome structural impediments. Mobile cellular subscriptions in the countries surged remarkably, from 38.1 per 100 people in 2010 to 89.5 in 2018. Despite these increases, the Internet penetration rate was only 47 per cent in 2019, while the Istanbul Programme of Action target is to provide 100 per cent access to the Internet by 2020. Moreover, the high cost and poor quality of Internet services remain major issues in many countries.

2. **Energy**

13. Access to electricity in Asia-Pacific least developed countries rose sharply, from 55.4 per cent in 2010 to 87.3 per cent in 2018; meanwhile, the current global average for least developed countries is 51.6 per cent. More than 90 per cent of the population in Afghanistan, the Lao People’s Democratic Republic and Nepal now have access to electricity, while 100 per cent of the population in Bhutan, Kiribati and Tuvalu have access.

14. However, ensuring an uninterrupted, affordable, reliable and clean energy supply remains a significant challenge. For instance, improving the quality of the electricity supply is essential for households, as home appliances are sensitive to changes in the flow of electricity. Moreover, electricity generation from renewable sources will have to be further strengthened, given the rising demand on energy to sustain economic growth while addressing climate impacts.

3. **Science, technology and innovation**

15. Least developed countries generally lag in their development in the area of science, technology and innovation. While the number of scientific and technical journals published per million population (which is a measure of the
capacity in science, technology and innovation) doubled to 15 between 2010 and 2018 in Asia-Pacific least developed countries, it is still less than 5 per cent of the world average. In addition, the combined share of Asia-Pacific least developed countries in the number of worldwide trademark applications reached only 0.76 per cent in 2018.

16. The lack of a clear and consistent science, technology and innovation policy has held back progress in this area in many countries. Future progress will therefore depend on fostering a culture of learning and innovation that rewards scientific and technical achievement. Greater private sector participation in promoting research and education in science and technology can also be encouraged.

4. **Private sector development**

17. Asia-Pacific least developed countries have made progress in private sector development, as reflected in the falling cost and amount of time required to start a business. For instance, while completing business start-up procedures required on average 56 days and 52 per cent of annual income per capita in 2010, the corresponding averages were 38 days and 20 per cent in 2019.

18. Nevertheless, limited access to finance (particularly for women and small and medium-sized enterprises), policy uncertainty, regulatory deficiencies, shortages of skilled labour and the high cost of trading continue to hamper private sector enterprises in most least developed countries. For instance, in 2017, access to financial services as measured by the proportion of adults with a bank account or with a mobile money service provider was only 37.7 per cent in Asia-Pacific least developed countries, with a difference of 18 percentage points between men and women.

B. **Agriculture, food security and rural development**

19. The Istanbul Programme of Action serves to highlight the importance of agriculture in the promotion of food security and rural development. Despite its declining share in national GDP, agriculture continues to employ on average more than half of the total labour force in Asia-Pacific least developed countries. However, despite its importance, agriculture only experienced an average annual growth of 1.9 per cent during the period 2011–2019 in Asia-Pacific least developed countries, compared to 3.0 per cent for all least developed countries.

20. Some Asia-Pacific least developed countries have significantly increased their production of food grain, vegetables, livestock, poultry and freshwater fish. In Bangladesh, Cambodia, the Lao People’s Democratic Republic, Nepal and Vanuatu, for instance, food production increased by more than 20 per cent between 2010 and 2018. While boosting agricultural productivity is a key priority for Asia-Pacific least developed countries, especially given the large impact that agricultural transformation has on reducing poverty and effectively tackling hunger and malnutrition, improving labour productivity in the agriculture sector remains a challenge. Efforts should therefore be made to increase labour productivity by modernizing the sector. Modernization can be achieved by promoting investment in rural infrastructure and sustainable agricultural practices, facilitating access to higher-yield seeds, commercializing agricultural production and linking it with market opportunities.

C. **Trade**

21. The objectives of the Istanbul Programme of Action include significantly increasing the role of least developed countries in global trade with the aim of
doubling the share of their exports in global exports by 2020. The Asia-Pacific least developed countries as a group missed that target; their combined share in world goods and services exports increased from 0.23 per cent in 2011 to 0.38 per cent in 2019. However, several countries saw significant increases in exports: Cambodia saw average yearly merchandise exports rise by 15 per cent; Lao People’s Democratic Republic by 14 per cent; Myanmar by 10 per cent; and Bangladesh by 9 per cent.

22. Despite the expansion of exports, these countries export only a limited number of merchandise goods, which in turn tend to be aimed at few destination markets. The concentration of exports makes the countries highly vulnerable to external shocks including reduced external demand as exemplified by the COVID-19 pandemic. The trade impact of the pandemic in least developed countries will be elaborated upon in section III (A).

23. The Istanbul Programme of Action calls for duty-free and quota-free market access for all products originating from least developed countries. Most developed countries provide such market access to least developed countries, and several developing countries – with China and India being prominent examples – have instituted preferential schemes for exports from least developed countries. While Asia-Pacific least developed countries are important beneficiaries of the preferential schemes, many of them have not been able to take full advantage of them owing to complex non-tariff barriers and supply-side limitations.

D. Commodities

24. Seven least developed countries from the region are commodity dependent and thus vulnerable to price volatility and external shocks. Although the Istanbul Programme of Action calls for actions to broaden the economic base and reduce commodity dependence, the average share of commodity exports in total merchandise exports of Asia-Pacific least developed countries increased from 55 per cent in 2010 to 60 per cent in 2018. Whereas Myanmar showed an impressive reduction in commodity dependence, from more than 80 per cent in 2010 to 60 per cent in 2017, dependence unfortunately increased significantly in Afghanistan and Solomon Islands, to more than 90 per cent in 2017.

25. An active economic diversification strategy that promotes forward and backward linkages between the commodities sector and the rest of the economy would help to diversify export baskets and increase the spillover benefits of growth in the commodity sector to the rest of the economy. It would also make countries more resilient to external shocks.

E. Human and social development

26. Modest progress has been made by Asia-Pacific least developed countries in achieving human and social development. The average maternal mortality rate in the Asia-Pacific least developed countries decreased (from 285 deaths per 100,000 live births in 2010 to 199 in 2017) as did the average infant mortality rate (from 40 per 1,000 live births in 2010 to 29 in 2019). Life expectancy also increased, from 66.7 years in 2010 to 69.4 years in 2018. However, access to health care is still challenging, with an average of only 0.79 physicians per 1,000 people in 2017, compared to 2.79 in other developing countries of the region. Similar patterns for the number of hospital beds, nurses and midwives suggest that the least developed countries are not catching up with the rest of the region in terms of the ability of their health-care systems to deliver adequate care. One reason is that investment in health-care infrastructure and services accounts for an average of just 0.6 per cent of GDP in Asia-Pacific least
developed countries, compared to an average 2.7 per cent for other developing countries in the region. Poor health services are making Asia-Pacific least developed countries more vulnerable to pandemics such as COVID-19.

27. With regard to education, the average net enrolment rate for primary education in these countries has remained at approximately 90 per cent over the implementation period of the Istanbul Programme of Action, suggesting that more efforts are required to achieve the Programme of Action target of providing universal access to education. In addition, gender parity in primary school enrolment deteriorated in three of the Asia-Pacific least developed countries. Moreover, the youth unemployment rate for women was more than the men’s rate in many of the region’s least developed countries, with the highest gender disparities found in Afghanistan, Bangladesh and Timor-Leste.

28. Access to shelter, water and sanitation remains a major challenge. While the average proportion of people with access to drinking water services in Asia-Pacific least developed countries increased from 77 per cent in 2011 to 83 per cent in 2017, the average share of population using at least basic sanitation services in 2017 was approximately 56 per cent, having increased by only 6.6 percentage points since 2011.

29. The COVID-19 pandemic has highlighted the importance of providing social protection, as many national economies have collapsed and millions of people have lost their livelihoods. It has also proven existing health-care and social protection systems in most of the region’s least developed countries inadequate. Indeed, only 19 per cent of the population in the Asia-Pacific least developed countries was covered by at least one social protection benefit in 2019, compared to 58 per cent for other developing countries in the region. As a result, this has left many workers, particularly those in the informal sector, vulnerable to external shocks.

30. Coverage is hampered primarily by underinvestment in social protection. On average, least developed countries in the region invest only 0.9 per cent of GDP in social protection, compared to the average of 6.3 per cent for other developing countries. Weak institutional capacity to reach the most marginalized groups has also limited the expansion of social protection.

F. Multiple crises and other emerging challenges

1. Economic shocks

31. To cope with regional and global economic and financial shocks, the Istanbul Programme of Action calls on least developed countries to develop and implement national risk mitigation strategies and set up national crisis resilience and mitigation facilities to reduce their vulnerabilities. Private sector development and economic diversification have been two of the most important mitigation strategies pursued by the region’s least developed countries to cope with economic shocks.

32. However, the economic and social impacts of the COVID-19 pandemic have exposed the high external dependency of the countries’ economic performance and their limited fiscal space to deal with external shocks, as elaborated upon in section III (A) below. In addition to national efforts, external shocks of such magnitude require a collective regional response to minimize their adverse impact, especially for least developed countries where capacities are generally lower and vulnerabilities higher.
2. Climate change and environmental sustainability

33. All Asia-Pacific least developed countries have ratified the Paris Agreement and have submitted nationally determined contributions with the greenhouse gas reduction target of 10 to 30 per cent by 2030. Bangladesh, Cambodia and Nepal are among the 17 countries in the Asia-Pacific region that have submitted revised nationally determined contributions, ahead of the twenty-sixth session of the Conference of the Parties to the United Nations Framework Convention on Climate Change, to be held in 2021. In addition, Bhutan has already reached carbon neutrality, while Tuvalu has set a goal to be on a zero-carbon pathway by 2050 and Vanuatu has committed to achieving 100 per cent renewable energy by 2030.

34. By the end of 2020, the average number of specific policy measures that had been introduced in Asia-Pacific least developed countries to cut emissions and increase economic resilience was four. For example, the Government of Bangladesh prepared the Roadmap and Action Plan for Implementing Bangladesh NDC in 2018 to commit to and to spell out climate change actions under the Paris Agreement. The Government of Cambodia prepared its National Protected Areas Strategic Management Plan 2017–2031 and National REDD+ Strategy 2017–2026. In small island least developed countries, Governments are implementing proactive measures to mitigate extreme vulnerabilities to climate change. For instance, the Government of Tuvalu enacted the Climate Change and Disaster Survival Fund Act of 2015 to address extreme vulnerability and enhance the country’s resilience.

35. Despite these national efforts, delivering on carbon mitigation in these countries critically depends on further capacity development support and financial assistance. Overall, for the six least developed countries that have estimated financing needs to address climate change in their nationally determined contributions, total adaptation costs are estimated at $54 billion and total mitigation costs at $35 billion. These totals are underestimates, yet they are at least double the amount the six countries put aside in 2020 to address the COVID-19 pandemic.

3. Disaster risk reduction

36. In the Istanbul Programme of Action, emphasis is placed on the fact that given their structural constraints and multiple vulnerabilities, least developed countries tend to bear a disproportionately heavy share of the impact of hazards and face daunting reconstruction challenges. In the United Nations publication entitled Asia-Pacific Disaster Report 2019: The Disaster Riskscape across Asia-Pacific – Pathways for Resilience, Inclusion and Empowerment, an analysis referred to as the Asia-Pacific regional riskscape captures the absolute average annual loss in United States dollars resulting from disasters in the region. The riskscape indicates that economic losses due to disasters are larger than previously estimated, with most of the additional loss linked to the impact of slow onset disasters on the agricultural sector. Moreover, in most of the least developed countries, such as Bangladesh, Bhutan, Cambodia, Nepal and others, the economies and a relatively large proportion of the population are at risk. For instance, the average annual losses resulting from disasters as a percentage of GDP are highest in the Lao People’s Democratic Republic, at 8.7 per cent, and in Cambodia, at 8 per cent. Overall, Cambodia, the Lao People’s Democratic Republic and Myanmar have an average annual loss of 7.1 per cent, compared to 2.8 per cent for the other countries in South-East Asia. Similarly, in Nepal, Bhutan and Bangladesh, average annual losses amount to 7.7 per cent, 6.9 per cent and 6.4 per cent of GDP, respectively.
37. Losses due to disasters undermine the ability of economic growth to reduce poverty and inequality by exacerbating inequalities in outcomes and opportunities and disempowering at-risk communities. For example, the devastating earthquake that struck Nepal in 2015 severely undermined its development endeavours and reversed its development gains. In 2020, the Asia-Pacific region saw the collision of climate extremes and COVID-19 transmission create cascading disasters with wide-ranging impacts on sectors, economies and populations. The least developed countries of South and South-West Asia were the most impacted by climate-related natural disasters, followed by South-East Asia and the Pacific. A similar pattern was observed in the impact of COVID-19, wherein South and South-West Asia was the most impacted subregion, followed by South-East Asia. The COVID-19 pandemic collided with Cyclone Amphan in Bangladesh in May 2020 and subsequently with large-scale monsoon floods in Afghanistan, Bangladesh and Nepal.\(^3\)

**G. Mobilizing financial resources for development and capacity-building**

38. In the Istanbul Programme of Action, the lack of financial resources is recognized as one of the biggest constraints facing least developed countries with regard to achieving sustainable development and making progress towards graduation. The annual investment needs of Asia-Pacific least developed countries are estimated at 16 per cent of GDP in order to achieve the Sustainable Development Goals by 2030, with small island developing States facing considerable challenges due to their high vulnerability to climate change.\(^4\)

1. **Domestic resource mobilization**

39. Government revenue (excluding grants) increased in the Asia-Pacific region, from 19.1 per cent of GDP in 2011 to 22.8 per cent in 2019, driven primarily by the rise in tax revenue; the median tax-to-GDP ratio increased from 13.5 per cent to 18.8 per cent over the same period. While the trend is encouraging, government revenue in least developed countries was significantly more volatile than in other developing countries in the region,\(^5\) which limited any further increase in public spending on health, education and social protection. In the three most populous least developed countries in the region, namely Afghanistan, Bangladesh and Myanmar, government revenue remained below 15 per cent of GDP, the desired level to enable Governments to invest in basic infrastructure services and achieve sustainable development. In Timor-Leste, the tax-to-GDP ratio fell sharply, from more than 100 per cent in 2011 to 25 per cent in 2018, owing to a combination of low oil prices and declining production from major oil fields.

40. Gross domestic savings in least developed countries remained at approximately 20 per cent of GDP between 2011 and 2019, which is significantly below the median of 29.2 per cent in other developing countries in the region. Kiribati and Timor-Leste had negative gross domestic savings rates during this period. Gross domestic savings as a percentage of GDP declined in Bhutan and Myanmar but improved in Bangladesh, Cambodia and Nepal. Low

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\(^4\) *Economic and Social Survey of Asia and the Pacific 2019: Ambitions beyond Growth* (United Nations publication, 2019).

\(^5\) Government revenue of least developed countries was on average twice as volatile as that of other developing countries in the region. Volatility is measured in terms of the coefficient of variation of annual government revenue series over 2010–2019.
per capita income, underdeveloped domestic financial sectors, non-inclusive financial systems and weak banking oversight are some of the factors that adversely affected domestic savings mobilization efforts in the least developed countries.

2. **Official development assistance**

   41. Official development assistance (ODA) is a major component of development finance that has aided the growth and development of least developed countries. While net ODA to Asia-Pacific least developed countries as measured in 2018 prices increased by 13 per cent, from $10.7 billion in 2011 to $12 billion in 2018, the ratio of ODA to gross national income in fact declined from 4.3 per cent to 2.7 per cent during the same period. Moreover, as least developed countries suffer from low absorptive capacities in utilizing resources, committed aid is often utilized at a much slower pace.

3. **External debt**

   42. Most Asia-Pacific least developed countries have fared relatively well with regard to keeping their debt and debt service obligations at a low level. Foreign reserves as a percentage of external debts exceed 100 per cent in Afghanistan, Cambodia, Nepal, Solomon Islands, Timor-Leste and Vanuatu. Moreover, debt service requirements in proportion to export earnings are generally low, ranging from 12.8 per cent in Bangladesh to 0.5 per cent in Timor-Leste. However, four countries (Afghanistan, Kiribati, the Lao People’s Democratic Republic and Tuvalu) are listed as countries with a high risk of external debt distress according to the latest Debt Sustainability Analysis of the International Monetary Fund (IMF) and the World Bank. In light of rising spending needs and economic contraction due to the COVID-19 pandemic, public debt in most Asia-Pacific least developed countries is estimated to have increased in 2020 by 5.9 percentage points of GDP, and a higher debt service burden is anticipated in the future (section IV contains information on international debt relief initiatives).

4. **Foreign direct investment**

   43. Net foreign direct investment (FDI) inflows to Asia-Pacific least developed countries have increased from approximately $5.7 billion in 2011 to $8.4 billion in 2018. Bangladesh, Cambodia, the Lao People’s Democratic Republic and Myanmar are the largest recipients. However, net FDI inflows declined for Bhutan, Solomon Islands, Timor-Leste and Vanuatu. When measured as a percentage of GDP, net FDI inflows in Asia-Pacific least developed countries shrunk significantly, from 4.2 per cent for the period 2010–2011 to 3.1 per cent for the period 2017–2018. The decline is largely attributable to reduced inflows for Bhutan, Solomon Islands and Vanuatu.

5. **Remittances**

   44. Personal remittances sent to the Asia-Pacific least developed countries have steadily grown, from $17.5 billion in 2011 to $31.9 billion in 2018. Bangladesh and Nepal are the largest recipients of personal remittances among them; remittances accounted for 6.1 per cent of GDP in Bangladesh and 26.9 per cent in Nepal. The average cost of sending remittances to Asia-Pacific least developed countries, however, remains high, ranging in 2017 from

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6 ESCAP estimates based on *Economic and Social Survey of Asia and the Pacific 2021* (United Nations publication, forthcoming).
4.4 per cent to 16.6 per cent of the amount transferred, which is much higher than the Addis Ababa Action Agenda of the Third International Conference on Financing for Development target of reducing such transaction costs to 3 per cent by 2030. The COVID-19 pandemic is likely to have adverse implications for remittances to least developed countries, although several countries saw a considerable uptick in remittance inflows during the second half of 2020.

H. Governance at all levels

45. All the Asia-Pacific least developed countries have either ratified or acceded to the United Nations Convention against Corruption. Several have taken measures to strengthen transparency in their extractive industries. Some have also emphasized e-governance and introduced advanced electronic and mobile services to improve the quality of government services. The average E-Government Development Index score of the Asia-Pacific least developed countries increased from 0.28 in 2012 to 0.36 in 2018.

46. However, challenges remain, particularly with regard to the proper use of development resources and ensuring the rights of workers and marginalized groups. Cultural and other barriers have prevented full recognition of universally accepted human rights. In addition, more efforts are needed to strengthen the rule of law and improve the effectiveness of legal and regulatory frameworks, which would increase the level of resilience in the Asia-Pacific least developed countries.

III. The coronavirus disease pandemic and the Asia-Pacific least developed countries: impacts, challenges and policy gaps

47. Notwithstanding the progress made by the Asia-Pacific least developed countries during the period 2011–2019, the countries fall short of expectations in several priority areas of the Istanbul Programme of Action and thus remain highly vulnerable to external shocks. Consequently, they were unprepared for the COVID-19 pandemic.

48. The vulnerability of Asia-Pacific least developed countries stems from the following three groups of factors: (a) lack of economic diversification, low productivity, dominance of informal sectors, poor infrastructure and underdeveloped private sector; (b) inadequate health-care and social protection systems; (c) chronic shortage of human and financial resources and weak governance.

A. Widespread economic disruptions exposed and exacerbated vulnerabilities

49. Owing to their undiversified economies, Asia-Pacific least developed countries suffered multiple supply and demand shocks as global economic growth collapsed under the weight of the pandemic. Before the pandemic, the economies of Asia-Pacific least developed countries as a group were growing at a weighted average rate of 7.2 per cent (simple average of 5.1 per cent) in 2019. This has consequently declined to 2.1 per cent (simple average of -2.5 per cent) in 2020. All of the countries witnessed sharp drops in tourist arrivals when travel bans were imposed, leading to a 47 per cent decline in earnings from tourist arrivals in 2020 compared to 2019, with cascading impacts on tourism-related enterprises and services. Exports from least developed countries dropped by 17.5 per cent during the second and third quarters of 2020 compared to the same
period in 2019. This is a much more significant decline than either the average 6.2 per cent decline experienced by other developing countries in the region or the total global decline of 13.7 per cent.\footnote{World Economic Situation and Prospects 2020 and World Economic Situation and Prospects 2021 (United Nations publication).}

50. To mitigate the impacts of the pandemic, Asia-Pacific least developed countries have allotted 3.2 per cent of their aggregate GDP to stimulus packages between the onset of the pandemic and November 2020. However, that figure is significantly lower than the average of 5.3 per cent for other developing countries in the region, which suggests that least developed countries do not have sufficient fiscal space and will thus need considerable support from the international community. Furthermore, poorly targeted measures and weak institutional capacity constrain the effectiveness of the countries’ efforts in that regard.

51. Owing to the pandemic, many workers, particularly in the informal sector, became unemployed. In Bangladesh alone – the largest least developed country by population and GDP – an estimated 64.4 million working hours in the informal sector were lost. Not surprisingly, large income losses were reported in almost all the least developed countries.

52. One reason for the losses is that the COVID-19 pandemic seriously impacted least developed countries’ manufacturing capacity, particularly segments that rely heavily on global value chains, exports and FDI for growth and employment. Globally, least developed countries suffered a 1.6 per cent decline in the value of exports in 2019, which is more than the global decline of 1.2 per cent. Low-cost labour-intensive manufacturing exports such as ready-made garments, leather goods and processed food and agricultural items suffered the most. A drop in commodity prices and export prices and rising production costs have squeezed profit margins, further compounding the difficulties faced by the sector.

53. Owing to the pandemic, prospects for FDI are uncertain. Although FDI had shown some promising trends in several least developed countries in recent years, flows appear to have declined because of disruptions caused by the pandemic. For instance, Bangladesh received only $720 million in FDI for the period July to October 2020, a 31 per cent reduction compared to the same period in 2019.

54. Worryingly, remittances to all Asia-Pacific least developed countries (except Bangladesh) are also estimated to have fallen in 2020, with projections pointing to a 14 per cent decline in global remittance flows by 2021 compared to 2019. These resources constitute critical support for households in least developed countries and account for a large share of GDP, reaching up to 22.6 per cent in Nepal. In Bangladesh, however, remittances increased by 8 per cent in the third quarter of 2020, possibly owing to unprecedented floods and loss of income in rural households.

55. At the same time, the share of total ODA allocated to all least developed countries globally decreased from 33 per cent in 2011 to 31 per cent in 2018. The decrease is worrisome because in many of the countries, cash transfer programmes and employment generation schemes funded by ODA have been critical in alleviating poverty and bringing about the inclusion of marginalized and vulnerable groups in the development process. Institutional weaknesses and lack of human resources have hampered proper and timely utilization of ODA
in many least developed countries, and the pandemic has multiplied that challenge.

56. There has, however, been some good news: least developed countries have successfully raised some funds through several international initiatives to assist them in mitigating the adverse impacts of the COVID-19 pandemic. For instance, Afghanistan received a World Bank grant of $100 million to support its response and recovery programme. Cambodia also received a World Bank grant, of $18 million, to strengthen its health-care system and step up its response capacity, while Nepal was able to obtain a grant of $29 million for its COVID-19 Emergency Response and Health Systems Preparedness Project. The International Finance Corporation announced $14 billion in support for health-care systems and businesses in developing countries, 40 per cent of which has been earmarked for businesses in least developed countries and other eligible countries.

57. Of the more than $100 billion in IMF financial assistance, $1.9 billion went to five Asia-Pacific least developed countries in the form of new concessional loans. In addition, three Asia-Pacific least developed countries have participated in the debt service suspension programme of the Group of 20, with a total estimated savings of $420 million. Furthermore, the Asian Development Bank announced an assistance package of $20 billion to fight the pandemic, including $2.5 billion in grants and concessional loans, which is benefitting all 12 Asia-Pacific least developed countries.

B. Social impacts have compounded other threats

58. The social impacts of the COVID-19 pandemic have compounded existing vulnerabilities; the pandemic has led to increasing poverty rates and exacerbated existing inequalities, particularly those related to gender. The pandemic has also disrupted health-care and education systems, impacted access to safe drinking water and sanitation and contributed to heightened food insecurity. The lack of robust social protection systems has aggravated the impacts of the pandemic, with the working poor and the marginalized groups, particularly in the informal sector, suffering the most.

59. Overall, ESCAP projections indicate that an additional 12 million people in the Asia-Pacific least developed countries, including many in Bangladesh, Myanmar and Nepal, could fall below the $3.20 daily income poverty line owing to the COVID-19 pandemic. Multidimensional poverty is also on the rise.

60. The COVID-19 pandemic has also increased household responsibilities for women and girls, as most members of the household remain confined at home. Migrant women workers, youth and other vulnerable groups have suffered disproportionately, with existing inequalities exacerbated as a result. Girls from poor and vulnerable households in some countries could also suffer because the pandemic is increasing household poverty, which could force them out of school and into work or marriage.

61. Education systems have been severely disrupted by the pandemic as well. A lack of technological capability and digital connectivity and an inability of many households to access ICT have constrained the feasibility of remote learning in least developed countries, as has the absence of educators trained in handling and operating digital technologies. On average, only 28.5 per cent of the populations in these countries have access to the Internet or digital services. Consequently, many children and young people, particularly girls from poor households, have dropped out of schools, which adversely impacts school enrolment, literacy rates and future job prospects. In least developed countries
in particular, missing school meals will have a serious impact on child nutrition and lead to increased stunting.

62. For least developed countries, the COVID-19 pandemic has clearly complicated the already difficult challenge of strengthening social development. Indeed, government expenditures on social development have likely been postponed or redirected as part of broader efforts to divert fiscal resources to mitigate growing budgetary pressures.

C. Graduation and prospects of achieving the Sustainable Development Goals

63. Mitigating the adverse impacts of the pandemic will be particularly difficult for graduating countries that are facing the withdrawal of duty-free and quota-free exports and the cessation of access to certain concessional financing sources while focusing on their socioeconomic recovery.

64. The preparations for graduation therefore need to acquire a much more holistic focus on sustainability in recognition of the fact that economic growth alone is not sufficient to ensure sustainable development. Investments in productive capacity development, health-care and social protection systems and digital connectivity are as important as those in physical infrastructure. Graduating countries will need to address the gaps that have been revealed by the pandemic, including lack of economic diversification, inadequate health-care and social protection systems and weak governance and human resources. Options must also be explored to strengthen and extend international support measures to increase the economic and social resilience of least developed countries.

65. The adverse impacts of the pandemic will also have serious implications for achieving the Sustainable Development Goals by 2030. Even before the onset of the pandemic, progress towards the Goals in least developed countries continued to lag. The adverse impacts of the pandemic, particularly reduction in growth, widespread job losses, increased poverty and hunger and intensified inequalities in accessing basic services are likely to necessitate an increased rate of progress in the least developed countries if the Goals are to be achieved by 2030.

IV. Programme of action for the least developed countries for the next decade: lessons learned and policy priorities

A. Initiating sustained socioeconomic recovery in the aftermath of the pandemic

66. In the aftermath of the pandemic, least developed countries will need to focus on reviving economic growth and diversifying their economies in a manner that supports sustainable development, strengthens public health-care and social protection systems, improves digital connectivity and access, and improves governance and institutions. To that end, they will need to mobilize significant financial resources.

67. Reviving economic growth will be a significant challenge in the Asia-Pacific least developed countries, given their undiversified economies. In the aftermath of the pandemic, the Governments will have to scale up many of the economic stimulus and relief packages introduced earlier in the pandemic to revive growth and put themselves back on a resilient recovery path. In this context, reviving economic growth needs to be done in a manner that facilitates
economic diversification and structural transformation and advances social development objectives.

68. The COVID-19 pandemic has revealed the importance of social protection for economic and social development. Governments will thus need to increase investment in social protection systems to preserve development gains and build resilience. Clearly, the pandemic has underscored the need for national preparedness in anticipating and coping with external shocks including pandemics and environmental disasters, which can give rise to significant economic and social costs.

69. The pandemic has also highlighted the importance of export diversification, moving up international value chains and harnessing new and emerging technologies. As their undiversified export baskets suffering significantly owing to disruptions in regional and global supply chains, least developed countries should reduce their exposure to future risk and uncertainty by diversifying their economic structures and better positioning themselves in global and regional supply chains.

B. Taking an integrated approach to addressing multidimensional poverty

70. The nature of poverty in least developed countries is changing, and addressing it has become much more complex. Least developed countries will have to look beyond monetary measures of poverty to address a wide range of deprivations faced by poor and vulnerable households.

71. Robust and comprehensive social protection systems can support people in times of unanticipated shocks, stabilize aggregate demand and prevent an economy from falling into a deep recession. They can also protect vulnerable groups from the vagaries of economic cycles and help to prevent them falling into poverty. Most least developed countries lack such systems. In the medium-to-long term, least developed countries need to prioritize strengthening their social protection systems and explore options to consolidate their financial viability.

72. Strengthening productive capacity and promoting economic diversification will also play an important role in addressing multidimensional poverty. Thus, while a few of Asia-Pacific least developed countries have achieved some measure of success in structurally transforming from agriculture-based to manufacturing-oriented growth, a successful productive capacity strategy must go beyond traditional measures to address the multitude of deprivations faced by poor and vulnerable groups.

73. Efforts to address multidimensional poverty and develop productive capacity can be complementary and should be pursued simultaneously. In particular, least developed countries need to implement productive capacity development strategies that have employment generation and spatial development as explicit objectives. Additionally, they need to be much more strategic in pursuing policies and programmes in these areas, with a renewed focus on producing more complex and differentiated products and improving labour productivity through skills formation and the improvement of working conditions.
C. Adjusting to the new normal and pursuing effective sustainable development strategies

74. The slowdown or interruption of economic activities due to curtailed travel and movement of goods and services had some favourable environmental impacts, including reductions in carbon emissions and improvements in air and water quality. These impacts indicated that existing modes of production and exchange were highly polluting and that opportunities exist in the medium-to-long term to introduce clean technologies and encourage carbon-neutral consumption and production systems. They also highlighted the key role of governments in introducing appropriate incentives and policies to promote the increased use of clean energy in transport and communication, such as adopting electric batteries, greening supply chains and transport logistics and retrofitting plants and factories with green technologies.

75. In addition, the pandemic demonstrated the importance of digital technologies. In many countries, the pandemic accelerated the process of digital transformation and created new job opportunities for those with the right skills in sectors like information technology, robotics, e-health, e-commerce and information-technology-enabled solutions. Businesses where staff and workers could work from home have thrived. Future smart workplaces will demand soft skills with competencies in digital technologies. Least developed countries will need to prepare for this structural transformation by investing in new and emerging digital technologies and reskilling their work force.

76. These preparations are particularly important for least developed countries which, as a group, have been falling behind in achieving the Sustainable Development Goals by 2030. The COVID-19 pandemic has further complicated their efforts to achieve the Goals by 2030. Least developed countries will have to scale up social sector investments, eliminate systemic disparities in accessing public services, improve efficiency and equity in delivering services, include beneficiary groups in implementing development projects and programmes and ensure greater transparency and accountability in managing development resources.

D. Revitalizing international and regional cooperation

77. International support measures for least developed countries have included duty-free and quota-free market access for their exports, special and differentiated treatment provisions for trade, concessional and priority access to ODA, and certain flexibilities afforded under the agreements of the World Trade Organization. Least developed countries will have to pursue an integrated approach and start negotiations with their key trading partners and multilateral financial institutions to deepen and extend these provisions to diversify their engagements with new and potential markets, using existing and new regional trading agreements and preferential trading arrangements.

78. This approach is especially important, as several traditional donors and multilateral financial institutions are reorienting their policies and moving away from financing big infrastructure projects in favour of supporting health, education, water and sanitation, and social protection programmes. This is therefore an opportunity for least developed countries to address multidimensional poverty and achieve the Sustainable Development Goals. Similar considerations need to guide their decisions to attract FDI and use remittances as a development resource, both of which should primarily be used for improving their productive capacity and generating employment opportunities with an increased focus on youth and women.
V. Conclusion

79. During the period 2011–2019, Asia-Pacific least developed countries as a group made some progress in implementing the Istanbul Programme of Action. However, its full implementation has not been attained, and many gaps remain with regard to achieving sustainable development and integrating their economies with regional and global trade and investment flows. Least developed countries have yet to achieve the economic and social resilience needed to cope with multitude external shocks. In particular, the lack of productive capacity development, inadequate provision of social protection and public services to poor and marginalized groups, limited external resources, climate change and weak institutional capacity have hampered efforts to achieve economic and social resilience.

80. Key challenges and policy gaps faced by the least developed countries will be addressed in the programme of action for the least developed countries for the next decade. The COVID-19 pandemic has exacerbated these challenges and exposed the vulnerability of these countries to shocks. It has revealed their lack of economic diversification, as their nascent manufacturing capacity, particularly with regard to businesses in export-oriented industries and micro-, small and medium-sized enterprises, has come under severe stress, with losses in output and exports. Owing to the large informal sector and the lack of social protection, job losses have directly translated into income losses and may have pushed many households into poverty.

81. The pandemic has also demonstrated that least developed countries have limited buffers and capacities to respond effectively to external shocks. These factors have been compounded by bleak external conditions surrounding ODA, international trade, FDI and remittances in the aftermath of the pandemic, forcing the least developed countries to reassess their development strategies, including preparations for graduation and achieving the Sustainable Development Goals.

82. The programme of action for the next decade is expected to be formulated against this background and will require an integrated approach encompassing a broad range of issues and development imperatives. It will need to improve the resilience and capacities of least developed countries in addressing new and emerging challenges and achieving their respective climate change goals in a holistic and coherent manner. Well-targeted policies and adequately funded initiatives and interventions will be needed.

83. Preparations for graduation from the category of least developed countries and strategies and polices to achieve the Sustainable Development Goals will have to be reassessed with a renewed focus on strengthening and extending international support measures. Urgent regional and subregional measures supported by the international community and their development partners, including through existing mechanisms, agreements and ESCAP initiatives, can be valuable in promoting regional and subregional cooperation. Cooperation will also be vitally important in protecting and restoring ecosystems with a view to building and deepening resilience to internal and external shocks and contributing to the countries’ graduation process.

VI. Issues for consideration by the Commission

84. The issues and policies outlined above are examined in greater detail in the Asia-Pacific Countries with Special Needs Development Report 2021: Strengthening the Resilience of Least Developed Countries in the Wake of the Coronavirus Disease Pandemic.
85. The Commission may wish to deliberate on the policy priorities highlighted in the present document and provide the secretariat with further guidance on which of these should be explored further with a view to implementing them at the country level. The guidance would give shape to the secretariat’s forthcoming analytical work and, more importantly, inform its planning and formulation of technical assistance and capacity-building projects for least developed countries.