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THE FASTEST GROWING LEAST DEVELOPED COUNTRIES

Case Study

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Abstract

The paper presents trends in economic growth and development in twelve least developed countries from 2006 to 2015. The study is based on the data retrieved from the World Bank Database. During the analysed 10 years, seven Asian (Myanmar, Lao PDR, Bhutan, Cambodia, Timor-Leste, Bangladesh, and Afghanistan) and five African (Ethiopia, Rwanda, Angola, Sudan, and Mozambique) LDCs had average annual GDP per capita growth rates higher than 4.0%. GDP has been largely generated through the services and industry sectors. A few LDCs sustained strong growth mainly because of foreign assistance and in other countries remittances were a significant source of development finance. Resource rich countries recorded high inflows of foreign direct investment. In a few fast growing LDCs the state has been heavily engaged in economy. The analysed LDCs substantially improved their development indicators.

INTRODUCTION

In the twenty first century, several least developed countries (LDCs) recorded rapid economic growth. The fastest growing LDCs were both in Asia and Africa. In the years 2006-2015, average annual GDP per capita growth higher than four per cent has been observed in Afghanistan, Angola, Bangladesh, Bhutan, Cambodia, Ethiopia, Lao PDR, Mozambique, Myanmar, Rwanda, Sudan, and Timor-Leste. The countries used different strategies to achieve high growth patterns.

The main aim of the paper is to show trends in economic growth and development in twelve least developed countries over the period from 2006 to 2015.The study is mainly based on the data retrieved from the World Bank Open Data.

There are a lot of studies on economic growth and development in least developed countries. For instance, Stokes (2015) analyses Bhutan's development policy, Louth (2015) and Leng (2017) focus on Cambodia's economic development, Altenburg (2010), Berhanu and Poulton (2014) examine Ethiopia's economy, Cunguara and Hanlon (2012) present problems of Mozambique's economic development, and Tin (2015) studies economic reforms in Myanmar.

The main contribution of this paper to the discussion on the determinants of economic growth and development in the fastest growing LDCs is a comparison of their development trends using the same set of data.

SOURCES OF GROWTH IN THE FASTEST GROWING LEAST DEVELOPED COUNTRIES

During the period 2006-2015, Ethiopia's economy grew at the fastest pace in the group of LDCs. The GDP annual growth rate in that country was above 10%. High average annual GDP growth rates were also observed in Myanmar and Angola. Five LDCs (Rwanda, Lao PDR, Afghanistan, Bhutan, and Mozambique) experienced GDP growth rates higher than 7%. Economies of Cambodia and Timor-Leste grew at nearly 7% per year. Slightly lower GDP growth rate was recorded in Bangladesh. Sudan's economy grew annually at 4.6 per cent. All analysed countries had average annual GDP per capita growth rates higher than 4.0% (Table 1).

The greatest progress in the growth of GDP per capita was made by Myanmar and Ethiopia. During ten years both countries nearly doubled their real GDP per capita. Myanmar's GDP per capita increased from US$ 678 to US$ 1 346 (constant 2010 US dollars). The Ethiopian GDP per capita rose from US$ 251 in 2006 to US$ 487 in 2015. Moreover, GDP per capita increased by more than 70% in Timor-Leste (from US$ 566 to US$ 987) and Lao PDR (from US$ 900 to US$ 1 557). In Bhutan (US$ 2 626 in 2015), Rwanda (US$ 715), Bangladesh (US$ 972), Cambodia (US$ 1 025), and Afghanistan (US$ 599) GDP per capita increased by more than 50% during the considered ten years. Sudan increased its GDP per capita from US$ 1 275 to US$ 1 882, Mozambique from US$ 362 to US$ 511 and Angola from US$ 2 754 to US$ 3 730.

On the supply side, GDP has been generated mainly through the services sector in Sudan, Bangladesh, Afghanistan, Mozambique, Rwanda, Lao PDR, and Cambodia. In 2015, services accounted for more than 50% of GDP in Sudan, Bangladesh, Afghanistan, Mozambique, and Rwanda and nearly 50% in Lao PDR. Besides, services generated more than 40% of GDP in Cambodia. Services slightly dominated over the industry sector in Myanmar, and the industry sector over the services in Bhutan. Services followed by agriculture generated GDP in Ethiopia. The industry sector was the main driver of growth in Timor-Leste (ADB, 2017 and UNCTAD, 2016)[i] and Angola (UNCTAD, 2016).

In the years 2006-2015, the largest increase in the share of services in GDP was observed in Sudan, Lao PDR, and Afghanistan. The industry sector increased the most its share in GDP in Myanmar.

Agriculture has declined considerably as a component of GDP in Myanmar, Lao PDR, and Afghanistan and industry as component of GDP in Sudan. In Cambodia, Bangladesh, and Mozambique there were no big changes in the structure of GDP.

In terms of growth, services recorded the fastest growth in Ethiopia, Myanmar, Rwanda, Mozambique, Cambodia, Lao PDR and Afghanistan (2007-2012). The industry sector was growing very fast in Myanmar, Timor-Leste, Ethiopia, Lao PDR, Rwanda, Cambodia, and Bangladesh. Generally, in the fastest growing LDCs the strong services sector growth has been supported by the fast-growing industry sector.

Changes in the structure of GDP were accompanied by changes in labour productivity. In the years 2006-2015, Myanmar made the biggest progress in that area. During ten years, labour productivity in Myanmar increased 3.7 times. In Timor-Leste and Ethiopia labour productivity increased by more than 80%. In 2015, the highest level of labour productivity was in Angola (Table 2).

The contribution of agriculture to GDP in the analysed LDCs, except Ethiopia and Rwanda (nearly 40% of GDP in 2015), was not big. However, agriculture is still important sector in terms of employment. In 2015, agriculture provided the main livelihood for more than 70% of the population in Mozambique, Rwanda and Ethiopia, 66% in Lao PDR, above 50% in Myanmar, Bhutan, and Afghanistan and more than 45% in Timor-Leste, Bangladesh, and Cambodia (UNCTAD, 2016).

On the demand side, domestic private consumption was the main source of growth in eleven analysed LDCs. In 2015, the share of household final consumption expenditure in GDP was more than 70% in Afghanistan, Timor-Leste, Rwanda, Angola, Cambodia, Myanmar, Bangladesh, Lao PDR, Ethiopia, and Sudan and nearly 70% in Mozambique. In the years 2006-2015, Angola recorded the largest increase in the share of domestic private consumption in GDP. On the other hand, in Afghanistan the share of household final consumption expenditure in GDP declined by nearly 30 percentage points between 2006 and 2015. Domestic private consumption slightly decreased also in Mozambique, Cambodia, Timor-Leste, and Bangladesh.

The contribution of gross domestic investment (gross capital formation) to GDP was less that of domestic consumption in all countries, except Bhutan. In Mozambique and Ethiopia the share of gross capital formation in GDP was more than 40% in 2015.

Growth was boosted by government spending in Timor-Leste. The contribution of government final consumption expenditure to GDP was relatively high in Mozambique, Bhutan, Rwanda, and Afghanistan.

Exports of goods and services were an important driver of growth in Cambodia. A significant decline in the contribution of exports to GDP between 2006 and 2015 was observed in Angola, Bhutan, and Afghanistan.

According to the export specialisation (the type of exports accounted for at least 45 per cent of total exports of goods and services in the years 2013-2015) Afghanistan, Rwanda, and Timor-Leste are considered to be services exporters, Bangladesh, Bhutan and Cambodia are manufacturing exporters, Ethiopia, Lao PDR, Mozambique, Myanmar, and Sudan are mixed exporters and Angola is classified as fuel exporter (UNCTAD, 2016).

In the years 2006-2015, Afghanistan exported mainly construction services, business services and transportation. Exports of services were rising until 2011 and then sharply decreased. The primary reason for the decline in exports of services was the withdrawal of foreign troops from the country that started in 2012. Since 2016, Rwanda's trade in services has been steadily increasing. Its services exports comprise travel, government services, transportation, and communication services. Timor-Leste has also been an exporter of travel, communication services, and government services.

Bangladesh exports garments, knitwear, and agricultural products. Cambodia is an exporter of clothing, footwear, timber, rubber and agricultural products. Bhutan's main export goods are electricity (to India), iron and steel, mineral fuels, oils, and distillation products. Ethiopia exports coffee, tea, edible vegetables, pearls, and precious stones. Lao PDR is an exporter of ores, wood products, copper, electrical and electronic equipment. Mozambique's exports are based on aluminium, mineral fuels, oils, distillation products, tobacco, prawns, cashews, cotton and Myanmar's one on mineral fuels, oils, distillation products, clothing, and edible vegetables. Sudan exports precious stones, oil and petroleum products, cotton, and live animals. Angolan exports is dominated by mineral fuels, oils, and distillation products (UN, 2017).

The fastest growing LDCs traded primarily with the Asian giants (Nowak, 2016). In 2015, China was the first largest export market for Angola, Lao PDR, Myanmar, and Sudan and the first largest import market for Angola, Bangladesh, Cambodia, Myanmar, Rwanda, and Sudan. India was the most important trading partner for Bhutan and the second largest export market for Angola. The United States were a main destination market for Bangladesh and Cambodia. Mozambique exported its goods mainly to Netherlands and Rwanda to Democratic Republic of Congo.

In the years 2006-2015, Afghanistan, Mozambique, Rwanda and Ethiopia sustained strong growth mainly because of foreign assistance. The United States were the largest donor for them. The high level of foreign aid was also observed in Timor-Leste and Bhutan. Timor-Leste was primarily supported by Australia and Bhutan by India.

Mozambique's economy boomed not only on official development assistance (ODA) but also on large inflows of foreign direct investment (FDI). Most of the FDI flows were concentrated in mining, hydrocarbon and energy sectors. Mozambique's leading investors were South Africa, Portugal and the United Kingdom. FDI inflows were relatively important source of economic growth in Cambodia and Lao PDR. During the period 2006-2015, total FDI into Cambodia accounted for 8% of GDP. The largest investors were China and the United Kingdom. Foreign investors were first of all interested in the Cambodian construction industry. In Lao PDR, the FDI inflows accounted for 5% of GDP and were mostly directed to hydroelectric and mining sectors. Angola is the first recipient of FDI in Africa. However, the contribution of foreign direct investment to economic growth has been variable. FDI as percentage of GDP were strongly fluctuated over 2006-2015. The majority of FDI in Angola comes from China and the US.

Remittances were an important source of development finance in Bangladesh. They had relatively high level in Timor-Leste, too. Data on remittances, net ODA and FDI flows in the fastest growing LDCs are presented in Table 3.

To maintain economic growth, the analysed LDCs have to improve the business climate. They are low ranked on their ease of doing business. What's more, they have a big problem with corruption. Score below 50 out of 100 in 2016 Corruption Perceptions Index achieved 10 countries (Table 4).

The most favourable environment for business start-ups and entrepreneurs has been created in Rwanda. The country ranks 41st out of 190 in the World Bank's Ease of Doing Business Survey for 2017 and 50th out of 176 in the Corruption Perception Index in 2016. Rwanda is the second (after Mauritius) highest ranked country in Africa. In Rwanda there are three administrative procedures to follow and seven days are required for a new company to start its activities (WBG, 2018). Moreover, Rwanda emerges 3rd least corrupt country in Africa, after Botswana and Cabo Verde[ii] (CPI, 2016). The second country in the group of the fastest growing LDCs which has the most business-friendly regulations is Bhutan. Its government has been one of the most active in South Asia in implementing reforms and simplifying the procedures necessary for business establishment. Bhutan is also the least corrupt country in the group and has the best quality of national governance. The other LDCs suffer from pervasive corruption.

The most common obstacles for doing business in the fastest growing LDCs are the following: political instability (Afghanistan, Sudan), high levels of bureaucracy (Angola), the legal system's lack of transparency (Cambodia), a weak regulation regarding property protection (Afghanistan, Myanmar), very high transaction costs (Angola, Ethiopia, Rwanda), a lengthy procedure to obtain the required investment authorisation (99 days in Cambodia), underdeveloped financial system (Afghanistan, Angola), a strict foreign exchange controls and a high interference of the state in the economy (Ethiopia), a shortage of skilled labour force (Afghanistan, Angola, Bhutan), a poor condition of infrastructure (Afghanistan, Lao PDR, Ethiopia), transportation problems (Bhutan, Cambodia), and getting electricity (all African LDCs, Cambodia, Timor-Leste).

DEVELOPMENT TRENDS IN THE FASTEST GROWING LEAST DEVELOPED COUNTRIES

The fastest growing LDCs are diversified in terms of the level of economic development. According to the Human Development Index (HDI), Bhutan, Timor-Leste, Lao PDR, Bangladesh, Cambodia, and Myanmar are classified as medium human development countries. In turn, Angola, Rwanda, Sudan, Afghanistan, Ethiopia, and Mozambique are low human development countries.

Angola is holding the first position in the group by GDP per capita. In 2015, the value of its GPD per capita (in constant 2010 US dollars) was 7.7 times bigger than that of the poorest Ethiopia. GDP per capita of Bhutan, Sudan, and Lao PDR accounted for 70%, 50%, and 42% of the Angolan, respectively. GDP per capita of the remaining countries was much smaller than a half of Angola's GDP per capita.

Over the period 2006-2015, the fastest growing LDCs improved significantly their development indicators. Life expectancy at birth has increased by more than 8 years in Rwanda and 7 years in Ethiopia. What's more, in four LDCs (Cambodia, Lao PDR, Mozambique, and Bhutan) people born in 2015 are expected to live more than 4 years than those born in 2006. Bangladesh, Bhutan, Cambodia, Timor-Leste, and Lao PDR are among the top ten least developed countries with the highest life expectancy at birth (Nowak, 2017).

Rwanda and Cambodia are the leaders in the reduction of infant and under-five mortality (Table 5). Between 2006 and 2015, infant and under-five mortality rates were reduced by 50 per cent in those countries. Ethiopia, Bangladesh, and Bhutan recorded a forty per cent reduction in under-five mortality. In absolute terms, the number of deaths of children under one year of age per 1 000 live births has decreased the most in Rwanda (by 32) and Mozambique (by 29). Under-five mortality has been reduced by 57 deaths per 1 00 live births in Rwanda and by 49 in Mozambique. In 2015, the lowest infant and under-five mortality rates were in Cambodia, Bhutan, and Bangladesh.

The largest progress in the reduction of maternal mortality has been made by Timor-Leste, Lao PDR, Ethiopia, and Afghanistan. The countries reduced maternal mortality rate by nearly half during ten years. In absolute terms, the number of maternal deaths declined by 380 per 100 000 live births in Afghanistan and by 345 in Ethiopia. In 2015, the lowest maternal mortality rates were in Bhutan, Cambodia, and Bangladesh.

A lot of people in the fastest growing LDCs have gained access to clean and safe drinking water since 2006. The largest progress in that field was made by Cambodia, Ethiopia, and Lao PDR (Table 6). It is worth noting that 100% of the population in Bhutan have access to improved drinking water.

In all countries, except Sudan, the proportion of population using improved sanitation facilities has increased. However, in 2015, above 70% of population had access to improved sanitation only in Myanmar and Lao PDR.

In the years 2006-2014, the analysed least developed countries, except Angola, made progress in access to electricity. In Afghanistan a proportion of the population with access to electricity increased by more than 60 percentage points. However, it was mainly due to the post-conflict reconstruction. Generally, the electricity access gap in the group of the fastest growing LDCs is huge. In 2014, all households in Bhutan had access to electricity whereas in the African countries, the percentage of the population with access to it was less than 35%, except Sudan.

CONCLUSIONS

There is no single path to rapid economic growth. In the years 2006-2015, Rwanda recorded high economic growth due to sound economic policies, peace and political stability. Now, it is one of the best performing countries in Africa. Sound macroeconomic policies and political stability were also conducive to economic growth in Cambodia. Government's interventionist policies enhanced Ethiopia's economic development[iii]. In Mozambique, economic growth resulted from implementation of market-based economic policies and the improvement of investment framework. The Angola's and Sudan's GDP growth has been mostly driven by the oil sector. During the period 2006-2008, the economies grew mainly because of high oil prices. After the outbreak of global crisis, economic growth in Angola and Sudan has been adversely affected by decreasing oil revenues because of low export prices.

In the fastest growing LDCs, GDP has been mostly generated through the services and industry sectors. Bangladesh has developed transport, energy, and information and communication technology to provide the basis for development of the textile and clothing industries. In Lao PDR, the basic contributors to GDP were wholesale and retail trade, hotels and restaurants, financial services and telecommunications. Transport, tourism and travel services have a great potential as drivers of Myanmar's economic growth. Bhutan's economy was dominated by hydropower industry and the building of new power projects.

A few LDCs sustained strong growth mainly because of foreign assistance and in other countries remittances were a significant source of development finance. Resource reach LDCs recorded high inflows of foreign direct investment.

The analysed LDCs substantially improved their development indicators.

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Appendices

Table 1.
Average GDP and GDP per capita growth in the selected LDCs, 2006-2015

Country	Average GDP growth	Average GDP p.c. growth
Afghanistan	7.5%	4.5%
Angola	8.4%	4.9%
Bangladesh	6.2%	4.9%
Bhutan	7.4%	5.6%
Cambodia	6.9%	5.3%
Ethiopia	10.5%	7.6%
Lao PDR	7.9%	6.1%
Mozambique	7.3%	4.3%
Myanmar	9.2%	8.4%
Rwanda	7.9%	5.0%
Sudan	4.6%	4.6%
Timor-Leste	6.9%	5.0%

Source: Own calculations based on WBOD (2017).

Table 2. *GDP per person employed (constant 2011 PPP $) in the fastest growing LDCs*

Country	Value, 2015	Percentage change, 2006-2015
Afghanistan	6 721	39%
Angola	22 125	36%
Bangladesh	7 479	52%
Bhutan	16 346	60%
Cambodia	5 937	42%
Ethiopia	3 342	83%
Lao PDR	10 790	59%
Mozambique	3 429	54%
Myanmar	5 192	268%
Rwanda	3 401	49%
Sudan	16 022	8%
Timor-Leste	9 885	85%

Source: Own calculations based on WBOD (2017).

Table 3. *Remittances, net ODA and net FDI inflows as per cent of GDP in the fastest growing LDCs, 2006-2015*

Country	Remittances	ODA	FDI
Afghanistan	1.6% (2008-2015)	37.1%	0.9%
Angola	0.03%	0.3%	-0.5%
Bangladesh	9.1%	1.4%	1.2%
Bhutan	0.6%	8.3%	1.9%
Cambodia	1.7%	6.5%	8.1%
Ethiopia	1.7%	10.0%	1.9%
Lao PDR	0.5%	6.4%	5.1%
Mozambique	1.0%	16.8%	19.8%
Myanmar	0.6%	1.8%	3.3%
Rwanda	2.1%	16.6%	2.3%
Sudan	1.6%	3.5%	2.9%
Timor-Leste	6.5%	8.9%	3.5%

Source: Own calculations based on WBOD (2017).

Table 4. *Ease of Doing Business and Corruption Perception Index in the fastest growing LDCs*

Country	Ease of Doing Business, June 2017		Corruption Perception Index, 2016	
	Score	Rank	Score	Rank
Afghanistan	36.19	183	15	169
Angola	41.49	175	18	164
Bangladesh	40.99	177	26	145
Bhutan	66.27	75	65	27
Cambodia	54.47	135	21	156
Ethiopia	47.77	161	34	108
Lao PDR	53.01	141	30	123
Mozambique	54.00	138	27	142
Myanmar	44.21	171	28	136
Rwanda	73.40	41	54	50
Sudan	44.46	170	14	170
Timor-Leste	40.62	178	35	101

Source: CPI (2016) and WBG (2018).

Table 5. *Reduction in infant, under-five, and maternal mortality, 2006-2015*

Country	Mortality rate, infant	Mortality rate, under-5	Maternal mortality
Afghanistan	19.4%	21.7%	49.0%
Angola	19.6%	21.7%	28.6%
Bangladesh	36.6%	40.3%	41.9%
Bhutan	36.4%	40.0%	48.1%
Cambodia	50.6%	52.5%	43.3%
Ethiopia	36.6%	41.6%	49.4%
Lao PDR	25.2%	28.7%	49.7%
Mozambique	34.5%	38.6%	34.0%
Myanmar	23.6%	26.6%	24.9%
Rwanda	50.7%	57.7%	45.7%
Sudan	18.6%	21.5%	25.6%
Timor-Leste	30.0%	33.0%	53.9%

Source: Own calculations based on WBOD (2017).

Table 6. *Changes in the access to electricity and improved water and sanitation (in percentage points), 2006-2015*

Country	Access to electricity*	Improved water source	Improved sanitation facilities
Afghanistan	62.0	14.5	5.0
Angola	-5.7	2.8	11.2
Bangladesh	17.0	6.3	8.8
Bhutan	37.8	8.5	9.9
Cambodia	28.0	20.4	15.8
Ethiopia	9.7	17.2	11.5
Lao PDR	20.1	16.7	24.4
Mozambique	8.3	5.5	3.6
Myanmar	3.8	7.1	8.8
Rwanda	10.9	5.7	8.3
Sudan*	8.6	-2.2	-0.1
Timor-Leste	12.2	9.5	2.6

* Data on access to electricity and data for Sudan are available for 2006-2014.
Source: Own calculations based on WBOD (2017).

Notes

[i] According to WBOD (2017), services accounted for more than 60% of total gross value added in Timor-Leste in the years 2006-2015.
[ii] Rwanda and Mauritius achieved the same score in 2016 Corruption Perceptions Index.
[iii] In the years 2006-2015, the Ethiopian government implemented two national five-year plans to improve economic growth and reduce poverty i.e. the Plan for Accelerated and Sustained Development to End Poverty (2005-2010) and the Growth and Transformation Plan (2010-2015). They prioritised agricultural and export-led industrialisation.