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Keynote Speech on

The impact of the global economic crisis on the economies of Landlocked Developing Countries

by

Mr. Sandagdorj Erdenebileg

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

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of Landlocked Developing Countries

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Honourable Minister of Industry, Investment and Trade of Mali,

Excellencies,

Distinguished delegates,

First of all, thank you for giving me the honour to present the keynote speech for this first session of the Third Meeting of Trade Ministers of Landlocked Developing Countries on such a crucial topic for all of us gathered here, for our economies, for our populations.

We meet at a critical juncture — one that is framed by the multiple crises that threaten development, with negative implications as well for peace and security and for human rights. The global economic and financial crisis, the most severe to hit the world economy in seventy years, has added unbearable pressure on developing economies, especially since it came on the heels of the food, energy and commodity crises.

The United Nations system is continuing its efforts to assess the magnitude of the implications of such multiple crises – and I can only confirm that the situation is alarming. The economic and financial crisis had led to a development crisis.

The prospects of reaching the internationally agreed goals are in jeopardy. Progress made toward the Millennium Development Goals will be set back, with the most severe, harsh impacts on the poor and most vulnerable among our countries' populations.

According to the latest findings, in 2009, global trade is expected to fall for the first time in 27 years. Unemployment will increase worldwide. Global Gross Domestic Product will decline. 100 million more people, than prior to the crisis, will be trapped in poverty and, for the first time, over a billion people are in the throes of hunger.

As stated by the United Nations Secretary-General Ban Ki Moon, in his recent report on the economic crisis and its effects on the vulnerable:

"The global economic crisis is not 'over' as some have begun to predict, but rather it has just started for hundreds of millions of people around the globe. The first 'green shoots' of recovery must not blind us to clear signals that a new type of crisis is spreading throughout the developing world. This crisis is the result of the multiplying effect of shock after shock ".

Indeed, the collapse of aggregate demand is still working its way through the global economy. We should not forget that this crisis is unprecedented in its deepness, wideness and global impact. The international community has the responsibility to act collectively to send the right signals and establish the appropriate environment conducive to a sustainable recovery for all.

We must remain vigilant. There is no room for complacency – and this is particularly true for the landlocked developing countries.

Let me highlight why.

Globalization and the interdependence of economies are usually a cause for celebration but the series of multiple global crises have played on these inter-linkages to the detriment of the poorest and most vulnerable countries, those who had no hand in originating those crises and did not the means to effectively protect themselves.

A crisis that was initially rooted in issues pertaining exclusively to a few most advanced countries rapidly spread its negative consequences to the rest of the world through a number of critical channels of transmission, particularly the credit squeeze, trade financing difficulties, contraction in flows of investment finance, potential reduction in official aid flows and, most importantly, through the collapse of export demand and commodity prices.

The landlocked developing countries have been particularly challenged by unprecedented volatility in food and fuel prices. These surged between 2005 and mid-2008, followed by a sharp price retreat for many commodities during the second half of 2008 and a partial recovery so far in 2009. Oil prices dropped sharply from $133/barrel in July 2008 to $41/barrel in December 2008. They recovered to above $70/barrel by August 2009. The decline in world food prices was less pronounced, with increases over the past few years only partially reversed. Despite sharp declines in commodity prices more generally in the wake of the crisis, food prices in August 2009 are about 57.6 percent higher than in 2005, while energy prices are about 27.5 percent above their average in 2005.

Some landlocked developing countries have suffered especially hard from trade shocks. Chad and Zambia, for example, experienced terms of trade losses in excess of five percent of 2008 GDP. Moreover, many LLDCs suffered large contractions in trade volumes, which have translated into lower export revenues and smaller tax bases. In Africa, evidence suggests a sharp reduction in agricultural earnings due to reduced exports of cotton and a drop of nearly 25 percent in the price of coffee, in Rwanda for instance. Mining industries have been particularly hard hit. Falling copper prices precipitated the layoff of one quarter of miners in Zambia in 2008. The prices of Mongolia's main exports (e.g., copper, zinc, crude petroleum, cashmere) have been cut in half, and the resulting decrease in economic activity has led to a reduction in hours of 50 to 70 percent among workers at construction and cargo shipment sites.

With falling export volumes and commodity prices, the growth projections by the International Monetary Fund for 27 out of the 31 landlocked developing countries exhibit sharp reductions in growth rates for the year 2009. For some of these countries, the differential will reach double-digit declines, leading to drastic balance-of-payments deteriorations.

Other sources of external finance, such as Foreign Direct Investment, are also expected to contract sharply given reduced profits and incomes in the developed world and also due to flight from developing countries as investors try to reduce perceived risk on their portfolios. According to the World Bank, FDI flows to low income countries, including most LLDCs, declined by a third in 2008 and are expected to see a similar reduction in 2009.

Remittances are also an important source of revenue for the LLDCs—in Moldova and Lesotho they constitute over 25 percent of the GDP and over 5 percent for eight other countries. But as unemployment increases in developed countries, remittances from migrant workers will in all likelihood decrease. The contraction could be worse in remittances coming in from migrants in primary commodity-exporting countries experiencing terms-of-trade losses. This is further compounded by exchange rate depreciations in origin countries which then reduces the domestic currency value in destination economies.

The combined effect on the economies of landlocked developing countries as a group will be reflected in a substantial erosion of their already weak competitiveness on the global markets, due to the high trade transaction costs and geographical disadvantages that beset these countries. They are already facing - and will continue to face in the coming year - stiff economic challenges in their efforts to finance their way out of the recession and donor support will be vital to mitigating the worst consequences. For these countries, the need to protect advances towards the Millennium Development Goals and the Almaty Programme priorities, and need to avoid drastic reductions in expenditures on important public services and development projects, including investment in and maintenance of transport and related infrastructure, highlights the urgency of increased aid, debt relief and concessional lending by donors.

The implementation of counter-cyclical policy, underpinned by a timely external resource injection, is certainly needed to help avert further macroeconomic instability in landlocked developing countries – but without effective external support, they risk to continue to be driven to the outer fringes of the global economy.

Mr. Chairman,

Allow me to underscore that the multiple global crises have hit the economies of landlocked developing countries at a time when much headway had been made. Between 2003 and 2007, the gross domestic product of this group of countries in special situation saw an average annual growth rate of 7.7 per cent, with average GDP per capita almost doubling in quantity. This remarkable growth was accompanied by a record high foreign direct investment of $14 billion in 2007, a result of strategic policy reforms and continued economic liberalization. Furthermore, positive changes to macroeconomic management had resulted in lower ratios of external debt to gross national income for these countries.

However, high economic growth was not accompanied by a structural diversification of productive capacities, with primary commodities still making up a large proportion of total exports. Furthermore, at the outset of the crisis, only a handful of the LLDCs could count on foreign reserves covering more than six months of imports, essentially implying that the great majority of these countries did not have foreign reserve levels that would give them the option of weathering external shocks, even of short-term nature, without the need for recourse to external resources.

Mr. Chairman,

Official development aid is, therefore, the most important source of external finance for LLDCs. While there has been some speculation that aid disbursements by donor countries are linked to their rates of output growth, which would then predict a decline in ODA, this so far has not been the case. According to a report by the Carnegie Endowment, overall ODA levels for 2008 and 2009 have held steady at the pre-crisis levels. And while this is welcome news, we must not forget that the difficulties perpetuated by the crisis will require increased assistance to mitigate --- and so, status-quo will hardly suffice. Although grappling with their own set of domestic issues, donor countries must acknowledge the particular hardships that the LLDCs and other vulnerable groups are facing and live up to their previous commitments, in which they, unfortunately, continue to lag.

The IMF, the World Bank and regional development banks have, at different levels, put forward programmes to assist developing countries hit by the crisis. The IMF resources were trebled, including a new allocation of special drawing rights of $250 billion and $6 billion in additional concessional and flexible finance for low-income countries over the next few years. The challenge ahead is to ensure timely delivery on all such commitments, within an improved lending framework, so as to substantially assist landlocked developing countries facing financing gaps.

Mr. Chairman,

The Almaty Programme of Action was enacted in response to the recognition by the international community of the grave vulnerabilities that the landlocked countries are particularly susceptible to. Since its implementation, much progress has been made through transit transport and trade policy reforms and a shared commitment by the landlocked countries to deal with the challenges that they are besieged by, in close cooperation with their transit neighbours. The financial crisis threatens to undermine these achievements and it is imperative that the LLDCs do not compromise on the public spending necessary to further the goals of the Programme. Similarly, the developed world needs to be more proactive towards extending aid to LLDCs.

At the global level, it is very important for LLDCs to continue to bring their special needs at the forefront of the Development Agenda in order to mobilize greater attention and support of the international community. They have to raise their voice in global fora. The WTO trade facilitation negotiations are of course an important opportunity for such collective efforts. The forthcoming Copenhagen Meeting on Climate Change is offers another platform for you to speak up as you suffer disproportionately from its impacts and are in need of predictable assistance for building adaptive capacities. Finally, the Group will have to prepare well for the 2010 MDG Summit.

The United Nations System stands ready to assist the LLDC Group in such endeavours.

I thank you all for your attention.