Global Financial Crisis and its Impact on the Least Developed Countries[1]

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Abstract
When in September 2008 the investment bank Lehman Brothers declared bankruptcy, it did not only mean the largest bankruptcy filing in U.S. history but it led to the financial crisis which very soon grew into the global crisis. Both developed and developing countries, with the exception of a few economies were affected, including the Least Developed Countries (LDCs). The aim of the article is to show the impact of the financial and global crisis on the LDCs with the relevant characteristics of these countries and their development outline since the beginning of the new millennium. The impacts of the crisis are analyzed in terms of financial effects – through the development of foreign direct investment and international aid and from the perspective of the real sector effects, i.e. the development of gross domestic product, exports and emigrants remittances. Emphasis will be placed mainly on the analysis of export problems. In addition to analysis methods, the method of description and comparison will also be used in the paper.

Keywords: financial crisis, Least Developed Countries, foreign direct investment, output growth, export

JEL codes: F43, G01, O57

1. Introduction

15th September 2008 was a "black" Monday on the financial market of the United States, which unleashed the greatest crisis in modern world history after the "black" Thursday in 1929. That day the investment bank Lehman Brothers declared bankruptcy and this meant not only the largest bankruptcy filing in U.S. history but, due to the interdependence of economies in the world economy, the financial crisis, which very soon grew into the global crisis.

The crisis, besides other things, resulted in a decrease of provided loans and a decline in aggregate demand in the global economy, which meant to stop the economic boom for almost all economies. To those affected economies belong a group of countries, also known as the Least Developed Countries (LDCs). Although those countries have not been affected strongly from the beginning of the crisis – they are not integrated into global financial markets and therefore the financial crisis did not have a direct impact on them – these economies have been affected later and deeper indirectly through the aforementioned decline in financial flows and a decline in the world demand, reflected in a decline in exports and remittances and thus a decrease in GDP.

The above consequences belong to the transmission channels of the financial crisis[2], which was dealt by many economists and international institutions before the crisis (Kamin et al., 1998), during it (IMF, 2009) and after it (Shafaeddin, 2009 or UNCTAD, 2010). Only two effects will be analyzed in this article, because of the reasons already explained – a financial effect and a real sector

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[2] These include financial contagion (which, due not involving the poorest countries into the global financial system, wasn´t current), financial effects and real sector effects.

effect. This article aims to determine whether the financial crisis has reduced the financial performance resources (mainly in the form of foreign direct investment, FDI) of the LDCs, e.g. a growth accelerator belongs to such financing sources in many countries. Simione (2009) shows, that the scarcity of capital on international markets may also force commercial banks to rationalize credit. That leads to prioritization of the credit to short run investment projects which can be paid back faster. This causes that public investment projects which are typically paid back in longer period may be difficult to access during the financial crisis. Another factor that may affect the LDCs due to the crisis is their high dependence on the official development aid (ODA). The financial crisis pressed the developed economies to reduce their aid costs since their fiscal balances have weakened. In those economies, the concerns about their public debt are increasing. In this article the question whether the fiscal restrictions in the developed economies had an impact on the financial assistance provided to the LDCs will be examined.

Within the impact of the financial crisis on the real sector of the LDCs, we can distinguish two effects – a volume effect and price effect. The volume effect is a negative implication of aggregate demand contraction in the developed economies that are directly related to external trade flows and export prices. What will be investigated in this article is a question whether we can adopt the following statement: A substantial share of the LDCs´ exports is consumed by the developed economies markets and when their demand contracts, the developed countries are likely to reduce their imports, which lead to a decline in the exports of the LDCs. The price effect lies in the fact that the world demand contraction has also prompted deflationary pressures on commodity prices on international markets. The export volume of the LDCs, like price takers as commodity exporters, will be valued at lower prices that lead to a decline in exports value. Again, I try to confirm this.

As Simione (2009) writes, crisis transmission to real sector may also occur through the declines in emigrant remittances, especially in the least developed countries. The recession in the developed economies has made many workers redundant, which has reduced employment opportunities for many emigrants. The decline in remittances will than potentially affect many families that rely on the remittances as an important saving source. I will try to find out whether this is also the case of the LDCs.

2. Facts and History of the Least Developed Countries

After the second wave[3] of decolonization and independence of most African and Asian economies in the sixties of the last century there was a need to introduce special support measures for the most disadvantaged economies, which those economies mostly were (and are to these days). The United Nations Economic and Social Council established as its subsidiary body the Committee for Development Planning (CDP)[4] in 1965. The CDP created a list of 25 economies in 1971, which they called the Least Developed Countries, under three criteria:

- low gross domestic product per capita (under $ 100)
- low share of manufacturing in gross domestic product (less than 10 %)
- low adult literacy (less 20 %).

These criteria did not remain the same, since 1991 they have gone through various changes as shown in the Table 1. The new three criteria have expanded in this year: the criteria of population not exceed 75 million[5], Augmented Physical Quality of Life Index (APQLI) which was the composite of nutrition (measured by the average calorie consumption per capita as a percentage of the average calorie requirement per capita), health (measured by the under five-child mortality rate), the combined gross primary and secondary enrolment ratio and adult literacy rate, and the Economic Diversification Index (EDI) that consists of the industry portion of the gross domestic product, number of the

[3] The first wave of decolonization took place in Latin America in the late 18th and in the early 19th century (the first country that became independent was Haiti in 1804, which belongs to the “traditional” LDCs).
[4] In 1998 it was renamed the Committee for Development Policy.
[5] Bangladesh is the only economy that exceeds this criterion.

employed persons in the industry, current consumption per head and export orientation of the economy. Since 2000 the index EDI has been replaced by the Economic Vulnerability Index (EVI) which incorporates seven indicators: population size, remoteness, merchandise export concentration and the share of agriculture, forestry and fisheries (they together form the Exposure Index), homelessness due to natural disaster, instability of agricultural production and instability of exports of goods and services (they together form the Shock Index). APQLI was replaced by Human Assets Index (HAI) with two indicators of health and nutrition (the percentage of undernourished population and the mortality rate for children younger than five years) and two of education (the gross secondary enrolment ratio and the adult literacy rate). (UN-DESA, 2006)

Table 1: Criteria of the Least Developed Countries 1971- 2009

	1971-1991	1991-2000	2000-2003	2003-2009
Criteria	GDP/capita manufacturing/GDP adult literacy	GDP/capita APQLI EDI population less than 75 mil.	GNI/capita APQLI EVI population less than 75 mil.	GNI/capita HAI EVI population less than 75 mil.

Source: author's creations

The developing countries seeking the LDC status (that brings some benefits in the form of "soft" loans, preferential benefits or development assistance) must satisfy (in addition to the strict requirement of the population), three criteria given in the following ranges[6]:

- GNI/capita – under \$ 905 for inclusion, above \$ 1086 for graduation
- HAI – value 58 for inclusion and 64 for graduation
- EVI – value 42 for inclusion and 38 or lower for graduation[7].

As the criteria have changed[8] and grew gradually, the number of the LDCs has changed and expanded as well. In July 2011, this group consisted of 49 countries - 34 in Africa, 14 in Asia and one in Latin America (see the Table 2). For the entire history there were only three countries that were able to graduate from the list, Botswana in 1994, Cape Verde in 2007 and the Maldives at the beginning of 2011 (the graduation was already decided in 2004, together with Cape Verde, but due to the natural disaster tsunami appearance it was postponed). In 2012, Equatorial Guyana should graduate and Samoa in 2014 (the graduation has been extended for the same reason as the Maldives for four years)[9].

Based on the above criteria and facts we can say that the LDCs are considered the most vulnerable economies in the world economy with a low-income level and structural handicaps to growth. Here are some specific numbers: according to Kaba (2011) over 880 million people – around 13 per cent of the world population – live in the LDCs with over 72 percent living in rural areas and depending for subsistence and income on agriculture. Within the LDCs as a whole, 277 million that is 36 percent of the population, live on less than \$1 a day and 31 percent are undernourished (17 percent in other developing countries). A child born in an LDC is 26 times more likely to die before its 5th birthday than a child born in a developed country. Women in the LDCs have a 1 in 16 chance of dying in childbirth compared to 1 in 3.500 in North America. 46 percent of girls have no access to primary education. Only 16 percent of the population has access to electricity (53 percent in other developing countries).

[6] The list of the LDCs and rank of criteria are reviewed every three years (last review was held in 2009).
[7] I do not describe the methodology of criteria calculation due to the limited scope of paper.
[8] In 2012 the new environment sub-index (share of population in low elevated costal zones) should be added to EVI (Economic and Social Council, 2011b).
[9] To become eligible for graduation, a country must reach threshold levels for graduation for at least two criteria or its GNI per capita must exceed at least twice the threshold level, and the likelihood that level of this is sustainable must be deemed high (UN-OHRLLS, 2009b).

Despite these disadvantages of the LDCs as a group, there are differences in the current situation and development of individual economies, which will be shown in the subsequent chapters.

Table 2: Current list of LDCs (October 2011)

Africa		Asia	Pacific	Caribbean
Angola	Madagascar	Afghanistan	Kiribati	Haiti
Benin	Malawi	Bangladesh	Samoa	
Burkina Faso	Mali	Bhutan	Solomon Islands	
Burundi	Mauritania	Cambodia	Tuvalu	
Chad	Mozambique	Laos	Vanuatu	
DR Congo	Niger	Myanmar		
Djibouti	Rwanda	Nepal		
Equatorial Guinea	Sao Tome and Principe	Timor-Leste		
Eritrea	Senegal	Yemen		
Ethiopia	Sierra Leone			
Gambia	Somalia			
Guinea	South Sudan			
Guinea-Bissau	Sudan			
Central African Republic	Tanzania			
Comoros	Togo			
Lesotho	Uganda			
Liberia	Zambia			

Source: author's creations

3. The Boom of the LDCs at the Beginning of 21st Century

During the period 2000-2008 with a global boom in the world economy, the LDCs recorded a strong economic growth, which would be just based on the external factors associated with the global expansion. According to UNCTAD (2010) this expansion was founded on increasing global imbalances, widening income inequality, increasing levels of household and corporate debt and the growing financialization of economic activity[10]. Based on it, the development of the LDCs was more vulnerable to external shocks during this period with increasing export concentration and commodities and external resources dependence.

Although the LDCs showed the average real GDP growth 7.2 percent in that period (and market value added about 6.65 percent, see Shafaeddin, 2009), the countries showed uneven economic development within this group: the countries with a growth exceeding 6 percent were 19 (Angola 18.6, Ethiopia 8.2 and Malawi 6.3), the economies with an average real GDP growth between three and six percent were 16 (Bangladesh 5.9, Senegal 4.7 and Djibouti 3.5) and the economies with a growth of less than 3 percent were 14, which represents almost 29 percent of all LDC countries (Tuvalu 3.0, Comoros 1.8, Liberia -2.3).

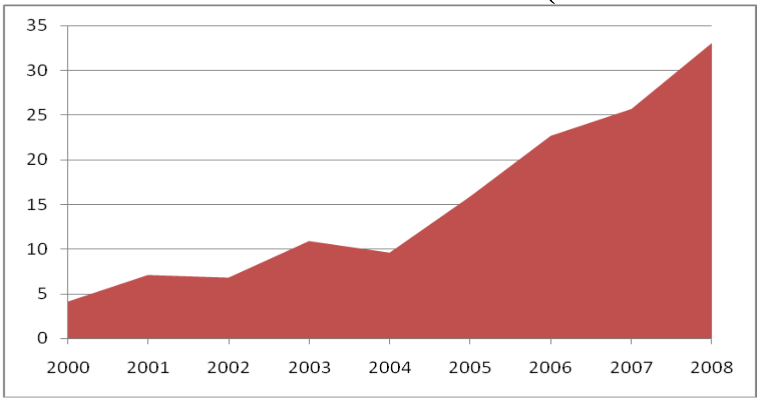
3.1 Financial flows from 2000 to 2008

As UN-OHRLLS (2010) states, the FDI, ODA and remittances play an important role for economic development of the LDC, for capital flows, know-how, employment and trade opportunities. **Foreign direct investment** was the most rapidly increasing resources flow to these countries (from 4.1 to 33.1 billion dollars) in the period 2000-2008, as shown in the Figure 1. In those years, the increased flows of FDI relative to GDP more than doubled from 2.2 percent of GDP in 2000 to less than seven percent in 2008. The majority of them were in the form of greenfield projects to extraction industries. More than a half of those projects was financed by the developing or transition countries.

[10] As Kripner (2005) shows, such financialization is a process in which corporate profits are increasingly made through the provision or transfer of liquid capital in expectation of future interest, dividends or capital gains rather than trough investment to expand capital stock to increase future production or facilitate commodity exchange.

For this reason, more than a half of the FDI flowed into the African LDCs, especially to oil-producing countries.

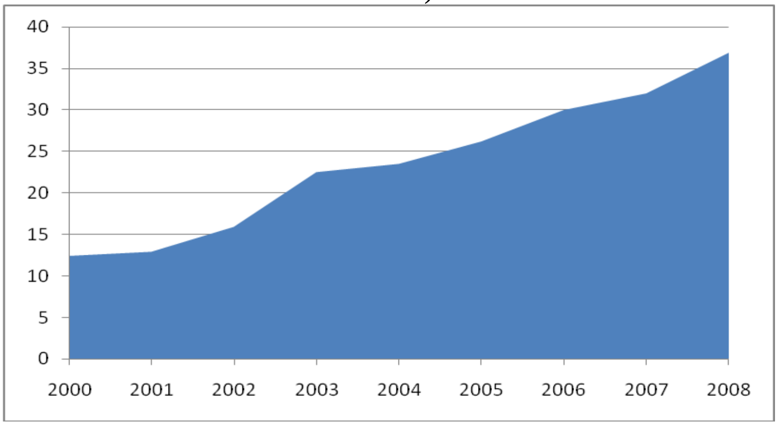
Figure 1: Foreign Direct Investment to the LDCs in 2000-2008 (in current billions of U. S. dollars)



Source: Economic and Social Council (2011), author´s calculations

Total **official development aid** remained the largest source of foreign resources for the LDCs. Approximately 70 percent of the ODA is provided through bilateral organizations (IDA, 2007) and major donors of it are the Development Assistance Committee (DAC), members of the OECD, which distribute more than 95 percent of ODA disbursements in the world[11] (Majerová, 2010). Although foreign aid to the LDCs in the period 2000 to 2008 rose sharply (in absolute value by less than 25 billion dollars, see the Figure 2), still this number, converted into percentage terms relative to the GNI of donor countries, does not achieve the objectives that the Member States established in the Brussels Programme of Action (BpoA). This ratio should be between 0.15 and 0.20 percent of GNI, but in 2000 this target was met by only five of the 22 economies (Denmark, Luxembourg, Netherlands, Norway and Sweden) and in 2008 added Belgium, Finland and Ireland and the United Kingdom. On average, therefore, the main donor countries reached the ratio of 0.09 percent and we can speak about the ODA gap phenomenon (aid as a percentage of GNI donors stays low and the absolute value of ODA rises).

Figure 2: Official Development Assistance for the LDCs in 2000-2008 (in current billions of U. S. dollars)



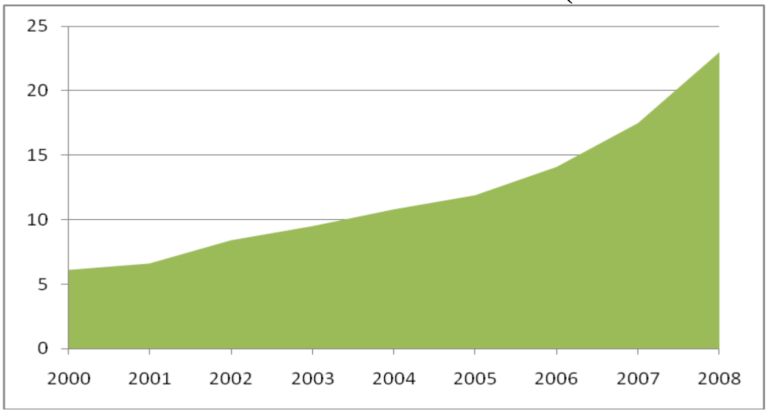
Source: Economic and Social Council (2011), author´s calculations

Remittances play an important role for the national economy and the households of the LDCs as well. In 2008, the remittances represented an average of 4 percent of LDCs countries´ GDP, and for example Nepal almost one-fifth, in Lesotho it was one-quarter (UN-OHRLLS, 2010). The average families´ remittances income is often higher than the average family income whose source is in domestic employment. In the boom period the remittances grew very fast as the Figure 3 shows – they changed from the value 6.7 billion U.S. dollars in 2000 to 23.0 billion in 2008, which meant about 14

[11] Therefore, in another interpretation we just focus on this type of foreign aid.

percent average annual growth rate. According to UNCTAD (2010) those remittances were significant in four countries – Bangladesh, Sudan, Nepal and Haiti, which account for two thirds of all remittances in LDCs.

Figure 3: Remittances and Income out of the LDCs in 2000-2008 (in current billions of U. S. dollars)

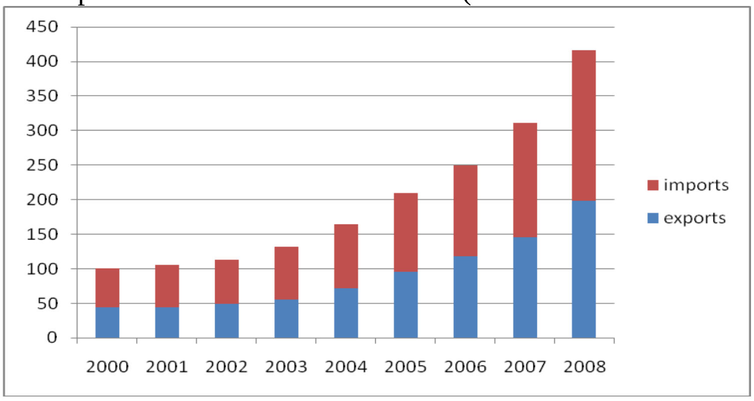


Source: Economic and Social Council (2011), author´s calculations

3.2 The LDCs and international trade between 2000 and 2008

The LDCs are very open economies and their dependence on **international trade** is a known fact. On the one hand it affects GDP growth, on the other hand it causes fluctuations in the internal and external stability. At first sight it might seem that the situation of the LDCs in this area improved in the period 2000 to 2008 – exports rose almost by 450 percentage points, the import of nearly 380 (see the Figure 4). But as WTO OMC (2009) suggests, LDCs´ trade depends traditionally on a few products (raw materials and tourism services), and therefore due to rising commodity prices and interest in traveling, the share of the LDCs in the world trade has increased from 0.6 in 2000 to 1.1 in 2008 (the problem of export concentration and export instability will be discussed below).

Figure 4: Exports and Imports of the LDCs in 2000-2008 (in current billions of U. S. dollars)



Source: UnctadStat (2010)

On the other hand, the share of GDP generated by both export and import, however, has not changed, as shown in the Table 3, on the contrary, it shows a slight decrease compared with the previous decade in the trade as a whole. Given that these countries are underdeveloped, they tend to be import-sensitive and interdependent, which also shows a growing share of imports in total trade (exports to stagnate). An increasingly widening gap between GDP and trade growth rate was also in this period.

Table 3: LDCs´ Trade as a Share of GDP and GDP Growth Rate in 1990-2008 (in %)

	1990-1998	2000-2005	2006-2008
Trade	66.22	51.27	59.83
Export	24.56	21.23	25.43
Import	25.19	30.01	34.33
GDP growth rate	3.64	5.61	7.53

Source: ECOSOC for Asia and Pacific (2009)

The above mentioned LDCs´ dependence on a few export products, notably primary commodities, increased during period 2000-2008. This dependence, called export concentration, in connection with foreign trade, is closely monitored and used to explain and predict the vulnerability of external shocks. According to La (2011) three concentration indices for measuring the degree of country export concentration are commonly used[12]:

- **the first** is *Herfindahl-Hirschman Index* (HHI) that is defined as a sum of squares of the percentages of the shares of each commodity as a proportion of total exports and *Gini-Hirschman Index* (GHI) that is square root of HHI,
- **the second** is *entropy coefficient* that result is opposite to the HHI or GHI - the higher the number, the lower the concentration,
- **the third** is *Markowitz portfolio model* that explain the relationship between a commodity concentration and export fluctuation (more Love, 1979).

In this paper the merchandise export concentration is expressed as Herfindahl-Hirschman index derived from a three-digit Standard International Trade Classification of 261 product groups. If country exports only one commodity, the HHI is one (maximum concentration), the greater number of commodities with a shrinking market share, the closer index to zero. Mathematical expression of export concentration is shown in equation 1, where x_i represents the value of exports of commodity i, X_j is the value of total exports of country j and n is the number of product along SITC.

$$HHI = \frac{\sqrt{\sum_{i=1}^{n}\left(\frac{x_i}{X_j}\right)^2} - \sqrt{1/n}}{1-\sqrt{1/n}} \qquad (1)$$

As it was already mentioned – export concentration increased during the past decade in the LDCs. The Herfindahl-Hirschman Index increased from 0.23 in 1995 to 0.33 in 2000 and 0.54 in 2008 (Economic and Social Council, 2011a). Export concentration varies in countries, as shown in the Figure 4, but on average three main export products account for three quarters of total exports, while in ten countries this index is more than 0.75 (by 2009 triennial review). This increase in export concentration has been due to trends in the African LDCs, particularly the oil exporters among them (as Angola or Equatorial Guinea for example).

Another analyzed problem that accompanies the LDCs since their inception, is export instability that results from either fluctuation in export prices or its quantity or both. As Glezakos wrote more than forty years ago, LDCs export mainly primary products and it has been claimed that their economic growth suffers from the deleterious effect of the export instability (Glezakos, 1973). In this paper the export instability is represented by the export value of goods and services, in current U. S. dollars, deflated by the index of import unit values and expressed as the purchasing power of exports[13]. Export instability index (EII) is the regression calculation of a trend equation for exports deflated by import unit values. The standard error of the regression as indicator of stability is used. Mathematical expression is shown in equation 2 for the trend equation and 3 for the standard error,

[12] For example Erlat and Akyuz (2001) used for their empirical verification up to five measurements.

[13] The purchasing power of exports indicates the capacity of economy to import goods and services from current export earnings.

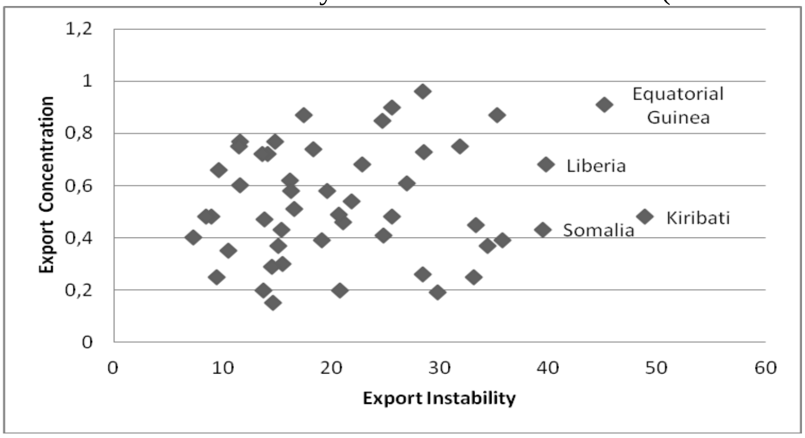
where X_t is the value of exports deflated by the import unit value, α is the constant that captures the period effect, which is the same for all countries within a given period, t is the time variable, γ_t is the trend, e_t expresses the error term and N is the number of observations.

$$log\ X_t = \alpha + \beta log\ X_{t1} + \gamma_t + e_t \tag{2}$$

$$S = \sqrt{\sum_t e_t^2 / (N-1)} \tag{3}$$

The same criteria of assessment are applied in the case of EII as well as HHI – the higher the value, the greater the instability. Also like HHI, export instability differs between economies, although the diversity of economies is not as noticeable – except four countries that has this instability more than 40 (in index), see the Figure 5.

Figure 5: Exports Concentration and Instability of the LDCs in index form (2009 triennial review)



Source: Committee for Development Policy (2009)

Given that export concentration and export instability is one of the biggest problems of LDCs´ exports, the relation to one another is made in and converted into graphic form, see the Figure 4. On this figure we can see that the vast majority the LDCs "suffers" from the higher degree of export concentration and export instability, while only a few economies (Equatorial Guinea and Kiribati) reached extreme values in that period.

4. Financial Crisis and its Impact on the LDCs

As we just said, the financial crisis began with a rising default level in subprime mortgages, bankruptcies, an overextension of credit and then a freezing of credit markets, and excessive financial bets on securitized debt obligations mainly in the United States but also in Europe. This has grown into the global financial crisis with wildly diverse effect (Nanto, 2009). These crises, together with economic, food price and energy crises, and accompanying by human-induced climate change crisis, are affecting the LDCs the most although they are ironically the least responsible for this situation. Global economy has started to pick up again from March 2009 and for almost all LDCs it could mean a new hope for their recovery. Was this really like that, or did it confirm the predictions that the recovery of those economies will be much longer and more complex than those of their developed partners?

4.1. The Impact on GDP Growth

The impact of the crisis on GDP growth of these countries was serious without any doubt. Although they showed 4.3 percent growth in 2009[14], there was a drastic decrease of almost four percentage points compared with the previous period. On the basis of a large reduction in export prices of primary commodities (see the Table 4), such an increase was not uniform. According to this table, where we can see a deep slump in petroleum, metals, oil and seeds and according to UNCTAD (2010), oil-exporting economies (Angola and Equatorial Guiana -15.2, respectively -12 percent) recorded the largest decline, on the other hand the countries like Afghanistan or Timor-Leste noticed a boom (10.1, respectively 4.8 per cent).

Table 4: World Commodity Prices Development in 2000, 2008 and 2009 (2000=100)

	1990-2000	Peak 2008[1]	Trough 2008/2009	Dec. 2009	% change through/peak	% change Dec. 2009/trough
All groups	-17.9	298.6	186.0	245.2	-37.7	31.8
Vegetable oil and oil seeds	-6.5	370.5	174.1	235.7	-53.0	35.4
Agricultural raw materials	-23.2	223.5	139.0	203.5	-37.8	46.4
Food	-20.2	280.6	190.1	238.4	-32.3	25.4
Tropical beverages	-7.1	206.7	152.4	206.7	-26.3	35.6
Mineral ores and metals	-21.2	391.6	175.9	289.3	-55.1	64.5
Crude petroleum	-28.0	469.5	147.1	265.4	-68.7	80.4

Source: Shafaeddin (2009), UNCTAD (2010), own calculations

Notice: tropical beverages, agric. raw materials, petroleum in July, oils and seeds in June, other in April

In 2010 the recovery of the LDCs was, however, slower (5.3 percent) and did not reach the levels achieved before the crisis[15]. Any further development (it is estimated by 5.5 percent in 2011) will depend on two things. The first is the development and renewal of advanced economies and their uncertainties that represents a high degree of risk for the LDCs. The second is an internal development – infrastructural deficiencies, the lack of human and financial capital, political instability, the natural disasters or domestic conflicts – all these factors do not have less weight for the further development than external conditions.

4.2 The Impact of the Crisis on FDI, ODA and Remittances

A slow recovery and economic growth in the LDCs caused an unsatisfactory development of **foreign direct investment** (FDI), ODA and remittances in these economies. According to UNCTAD (2011) we can see a decline in FDI, by 12 percent in 2009 to 28 billion U.S. dollars and again in 2010 by 14 percent to 24 billion U.S. dollars, see the Figure 5. The slowdown was recorded first in Mauritania, Yemen and Samoa (-111, -92 and -90 per cent change between 2008/2009), on average the biggest decline was recorded in the Asian LDCs. On the other hand over 80 percent of the flows went to resource-rich economies in Africa (Equatorial Guinea 306 percent or Chad 98 percent) and to Nepal (incredible 3,716 percent) or Solomon Islands (129 percent) as well.

FDI inflows have been the most important external private capital flows for the LDCs, exceeding foreign portfolio and other investments combined, but they still remain below the level of total **official development assistance** (ODA) flows. This aid rose in 2009 to 40.1 billion U.S. dollars and in 2010 it is estimated a further increase to 44 billion (see the Figure 6). The proportion of ODA to the LDCs remained at 0.097 percent of total aid which is inconsistent with the objectives BPoA (between 0.15 and 0.20 percent). If donor countries wanted to achieve the lower limit of ratio, they would have to increase their ODA expenses to 58 billion dollars (in the case of target 0.20 it should be 77 billion U. S. dollars).

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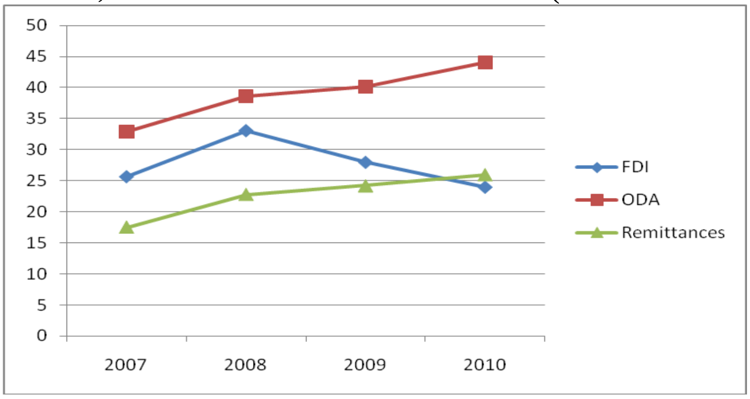
[14] The growth was the highest of all classified countries: emerging and developing countries showed growth of 2.3 percent, the developed world -3.2 percent.

[15] Already mentioned emerging and developing countries had overtaken LDCs and their growth reached 6.1 percent.

A positive trend was observed in the case of **remittances**. Although the total remittances in the developing world decreased by 5.5 percent in 2009, in the LDCs in the same year showed an increase by 6.1 percent. According to Mohapatra et al. (2011) the LDCs were expected to increase by 7.4 percent in 2010 (compared with 6 percent in all developing economies). The development of these objectives can be seen in the Figure 6, where are given the years 2007 and 2008 for better comparison of lineage.

Figure 6: Trends in FDI, ODA and Remittances in 2007-2010 (in current U. S. dollars)

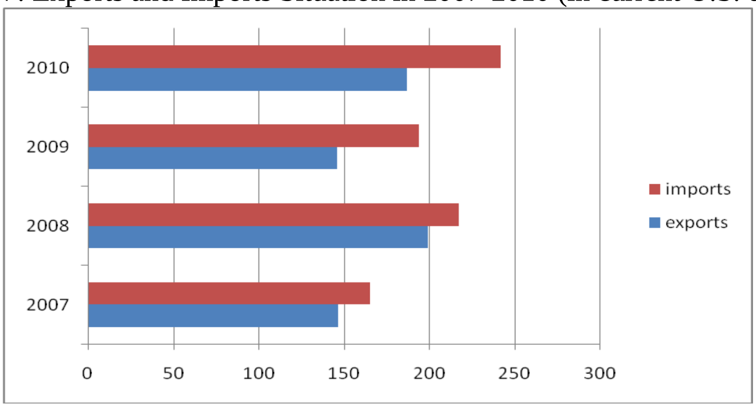


Source: UNCTAD (2010), UNCTAD (2011), Mohapatra et al. (2011)

4.3 The Export of the LDCs after the Crisis

Due to a strong relationship between the LDCs economies on the demand of developed countries, high export concentration and high volatility of exports of these countries (data collected in section 3.2), we can conclude that these economies have been affected by the crisis more than any other country in the world economy. While the world trade declined by 14 per cent in 2009 (UNCTAD, 2010), the trade of the LDCs recorded a decline by 18 percent in the same period (of which 27 percent decrease in exports and 11 percent in imports). Although the LDCs´ exports recuperated strongly during the second quarter of 2009, as WTO OMC (2009) shows, their level was below the level in 2007, see the Figure 7. This figure also shows a rise in LDC´s exports in 2010, but its level was located below the level of 2008. Another situation, for these economies not so convenient in the terms of widening current account imbalances, occurred in imports, whose level exceeded the level of the boom.

Figure 7: Exports and Imports Situation in 2007-2010 (in current U.S. dollars)



Source: Economic and Social Council (2011), EU (2011), author´s calculations

Although the LDCs have been affected by the global crisis, its impact on individual economies differed – the major determinant of these differences was a structural composition of exports (UNCTAD, 2010):

- *exporters of precious metals* (like gold and platinum) benefited from the rapid growing demand for these (safe) assets and did not experience a decline in their prices and any negative effect of the crisis
- *exporters of manufactures* were namely hit by a decline in the world demand, but have not experienced significant declines in the prices of exported goods (13 LDCs recorded even a positive growth in their merchandise exports)
- *food and agricultural exporters* were affected by a decline in export prices (though lower than for other goods), but due to the inelasticity of demand this decline survived without any difficulty
- *exporters of oil and non-precious minerals* were affected by the crisis very severe from the reasons of high price volatility and a demand decline.

The LDCs produce not only merchandise but services as well. As WTO OMC (2009) writes, the most important export of commercial services is tourism, which represented more than 50 percent of exports of some countries (Cambodia or SIDC[16]) and the impact of crisis is for them catastrophic – for example the Maldives, that graduated from the LDCs in 2011, the revenues from tourism account more than 90 per cent of total services export, and they declined by more than 20 percent in 2009. This was mainly due to the fact that these services are geared to tourists from Europe and the USA. This geographic orientation was another reason for the negative effects of the crisis. Those LDCs, whose mutual was conducted with not too advanced and transition economies, were less affected by the crisis.

The fall in exports can be compensated by stimulating a domestic demand when the economy is flexible. In the case of the LDCs whose exports are concentrated in one or a few products, neither the loss in the external demand for these commodities nor any internal stimulus can switch a demand from export to the domestic market sufficiently (Shafaeddin, 2009). So these stimuli have to be compensated by external finance and debt reduction, respectively debt forgiveness, just by increasing FDI and official aid. Another possibility is the main trade liberalization of developed partners associated with preferential benefits for the economies that will bear the consequences of them that would not cause any long-lasting crises.

Conclusion

The Least Developed Countries, which are 49 at present, are economies that are situated geographically in the poverty belt and are characterized by a low economic development, a high instability (not export only), high degree of interdependence, low levels of human capital and a low level of its own resources to development. Before the global crisis the Least Developed Countries, however, recorded a very high economic boom, their GDP increased on average by more than 7 percent in 2000-2008. An initial impact of the financial crisis that spread to the global economic crisis was not very significant because these countries were not integrated to the global financial market. However, with a deepening of this crisis, a credit freezing and a decline in the world demand, the LDCs were pushed into this global crisis.

The impact of the above mentioned crisis on two areas of the economy was analyzed in this paper: from the perspective of the financial sector (through foreign direct investment, official development assistance and remittances) and in the view of the real sector (the impact on GDP and exports). First, the above variables during the boom (in 2000-2008) were examined and compared, and it was found out that there was a positive trend – as GDP, FDI, ODA and remittances, the trade expanded as well. A negative trend appeared only in growing export concentration and instability that was verified by Herfindahl-Hirschman Index and Export Instability Index. It was found that, with exceptions which consisted of two economies (Kiribati and Equatorial Guinea), the LDCs in this regard were not very distinguishable from each other.

[16] Small Islands Developing Countries are 52 states in Caribbean and Pacific.

In other analyzed periods, the time of and after crisis, a decline in all areas was expected. Although an economic growth was slowed in the LDC countries in 2009, it did not reach the negative or low values as was the case of developed, respectively other developing countries. Despite this fact, a recovery has been made more slowly than in the rest of the world and even in 2011 the countries are not expected to recover faster. A similar situation “prevailed” in the field of foreign resources in the form of FDI. These investments registered a substantial decline during the crisis and its level was not improved in 2009 nor in 2010, when did not even reach the level of 2007. In 2011, depending on the development of the rest of the world, however, their slow growth is expected. Their distribution is also uneven – most of them go to primary industry (greenfield projects) to the raw materials equipped economies. ODA and remittances showed a favorable trend. In the case of ODA to its rise there, on the other hand, this amount did not reach the goal set BPoA, at least 0.15 percent of total ODA/DAC. Although this goal is not achieved, it is positive that the aid did not stagnate. Remittances showed a significant decline in developing economies, with the exception of the LDCs countries which experienced continuous growth. In these two items of financial flows our decrease hypothesis was not confirmed. The impacts of the crisis on international trade was dependent on commodity export orientation (exporters of oil and non-precious minerals were affected the most, while exporters of precious metals benefited from an increasing demand for these commodities) and geographic orientation (those economies that are oriented to the rich North, were affected more than those that focus on trade with the developing world). On average, the total trade declined in this period, exports by 16 percentage points more than the import.

In order to recover from the global economic crisis and “withdraw” from the vicious circle of poverty, the LDCs need to activate and multiply the number of external sources, not only in the form of FDI, remittances and development aid, but also to make better use of their own capacities – in the form of macroeconomic stimulus, combating corruption and building productive capacities.

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