Bhutan graduates from UN list of Least Developed Countries (LDC)

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In news–Bhutan will become the seventh nation to graduate from the United Nations' (UN) list of Least Developed Countries (LDC) on December 13, 2023.

What is a Least Developed Country (LDC)?

- The LDCs are developing countries listed by the UN that exhibit **the lowest indicators of socioeconomic development.** The **concept first originated in the late 1960s and was codified under UN resolution 2768** passed in November 1971.
- According to the UN, a**n LDC is defined as** "a country that exhibits the lowest indicators of socioeconomic development, with low levels of income, human capital and economic diversification, high levels of economic vulnerability, and a **population that is disproportionately reliant on agriculture, natural resources, and primary commodities**."
- **The UN identifies three criteria for a country to be classified as an LDC:**
  - First, it must have a gross national income (GNI) per capita below the threshold of USD 1,230 over a three-year average.
  - Second, it must perform poorly on a composite human assets index based on indicators including nutrition, health and education.
  - Lastly, the country must demonstrate economic vulnerability such as being prone to natural disasters and possessing structural economic

constraints.

- **Countries must meet a selection from all three criteria simultaneously and are reviewed on a three-year basis** by the UN.
- **Currently, the UN lists 46 countries that qualify as LDCs.** They are-
  - **Africa** (33): Angola, Benin, Burkina Faso, Burundi, Central African Republic, Chad, Comoros, Democratic Republic of the Congo, Djibouti, Eritrea, Ethiopia, Gambia, Guinea, Guinea-Bissau, Lesotho, Liberia, Madagascar, Malawi, Mali, Mauritania, Mozambique, Niger, Rwanda, Sao Tome and Principe, Senegal, Sierra Leone, Somalia, South Sudan, Sudan, Togo, Uganda, United Republic of Tanzania and Zambia
  - **Asia** (9): Afghanistan, Bangladesh, Bhutan(now moved), Cambodia, Lao People's Democratic Republic, Myanmar, Nepal, Timor-Leste and Yemen
  - **Caribbean** (1): Haiti
  - **Pacific** (3): Kiribati, Solomon Islands and Tuvalu

How does a country get off the LDC list?

- **At the UN 2021 triennial review of LDC countries, the organisation recommended that Bangladesh, Laos, and Nepal be removed from the list.**
- **To graduate from the LDC list, a country must meet certain criteria in the three areas stated before namely,** income, human assets, and economic vulnerability.
- A nation must have a GNI per capita of at least USD 1,242 for two consecutive triennial reviews in order to meet the income requirement.

- **The nation must also show that this level of income can be sustained over the long term.**
- By using measures like education, health, and nutrition, a nation must show that it has improved its human

capital in order to achieve the human assets requirement.

- This entails expanding literacy rates, lowering malnutrition rates, and enhancing access to healthcare and education.
- **A nation also must show that it has improved its ability to withstand external economic shocks like natural catastrophes** or shifts in commodity prices in order to pass the economic vulnerability test.
- Diversifying the economy, investing in infrastructure, and raising the standard of institutions and governance are all ways to do this.
- To achieve these goals, a country might need to implement a combination of policies, including promoting economic growth through investment in infrastructure, improving governance and reducing corruption, diversifying the economy, addressing environmental challenges, and investing in human development.
- **For example, Botswana achieved graduation in 1994 primarily due to its strong economic performance** driven by its diamond mining industry and investments in education and infrastructure.

How did Bhutan get off the LDC list?

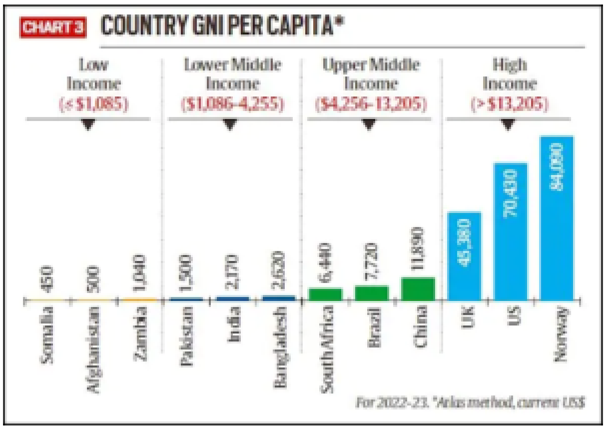
- **Bhutan was included in the first group of LDCs in 1971.** However, over the last few decades, it has made remarkable progress on a variety of socio-economic metrics.
- Bhutan first fulfilled the requirements for graduation in 2015, and then again in 2018. Bhutan was therefore scheduled to graduate in 2021.
- However, the UN viewed Bhutan’s request to match the effective graduation date with the conclusion of the nation’s 12th national development plan in 2023 as a legitimate request and thus postponed the delisting.
- Bhutan has taken a number of measures to reach this

point and the results have been significant.

- **Bhutan's economy increased more than eight times in the last 20 years,** from just under USD 300 million in 2000 to USD 2.53 billion in 2017, with an average annual growth rate of more than 7 per cent.
- Additionally, the percentage of people living in poverty, as determined by the amount of money they make each day, decreased from 17.8 per cent in 2003 to 1.5 per cent in 2017. In the same vein, the percentage of people living below the national poverty line decreased from 23.2 per cent in 2007 to 8.2 per cent in 2017.
- **Bhutan has mostly accomplished this by increasing exports of hydropower to India, which now accounts for 20 per cent of its economy.**
- **The nation also established Brand Bhutan** in an effort to diversify exports while acknowledging the modest size of its local market.

Note:

- India currently falls under lower middle income category according to per capita GNI.
- India is currently far behind both the so-called developed countries, as well as some developing countries.
- Often, the discourse is on the absolute level of GDP (gross domestic product). On that metric, India is one of the biggest economies of the world – even though the US and China remain far ahead.
- However, to be classified as a "developed" country, the average income of a country's people matters more. And on per capita income, India is behind even Bangladesh.
- China's per capita income is 5.5 times that of India, and the UK's is almost 33 times.



Advantages of being an LDC-

- Being an LDC confers certain economic benefits to the listed country. As such, advancing out of the list is often only the first step in overall development.
- Importantly, **LDCs also enjoy duty-free and quota-free (DFQF) access to the markets of developed countries.**
- This means that LDCs are not restricted by trade restrictions or tariffs when exporting their goods to wealthier nations.
- For LDCs, this is a significant advantage because it enables them to expand their exports and get access to new markets, which can boost their economic development.
- However, **a nation can lose access to the DFQF as it transitions from being an LDC to a middle-income developing nation.** As a result, a nation that leaves the category of LDC may encounter new trade obstacles that it had not previously encountered, making it more challenging for it to expand its exports and get access to new markets.
- **LDCs are also eligible for loans with special terms for development,** which include loans with a lower interest rate and a longer repayment time than those given to other nations.
- The term “**Official Development Assistance” (ODA) or “aid”** is frequently used to describe this form of support. This money is intended to aid LDCs in their initiatives to meet their fundamental requirements,

promote sustainable economic growth and development, and fight poverty.

- However, in the case of some LDCs, these special privileges do not contribute significantly to their economy.
- For instance, 56 per cent of Nepal’s total exports are sent to India, and the majority of this commerce is conducted in accordance with a bilateral free trade agreement, meaning that India is not entitled to the LDC privileges.