Structural Transformation in Landlocked Developing Countries

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Landlocked Developing Countries

Landlocked Developing Countries (LLDCs)
(32 countries)
Africa 16, Asia 12, Latin America 2, Central and Eastern Europe 2

Note: The boundaries and names shown and the designations used on this map do not imply official endorsement or acceptance by the United Nations.
Structure of presentation

**Three points:**

1. The Growth Story:
   - Almaty PoA: a Decade of growth *without* transformation
   - The next PoA: a Decade of growth *with* transformation

2. Key elements of structural transformation

3. Reflection on key drivers of structural transformation:
   - Employment-rich growth
   - Productive capacity-building
   - Public investment
1. Almaty PoA: a Decade of growth without transformation

- Impressive performance:
  - Real GDP growth
  - External trade
1. Almaty PoA: a Decade of growth without transformation

• But growth has not generated the expected benefits:
  ➢ Slow pace of poverty reduction
  ➢ Extreme poverty remains worringly high
  ➢ Commodity exports-driven growth, which in turn led to:
    ➢ Consumption-led growth
    ➢ Intensification of dependency on commodities
    ➢ High export concentration and increased volatility
    ➢ Import dependent growth with negative implications for the balance of payment and future growth
1. Almaty PoA: a Decade of growth without transformation

• External Finance-driven growth
  – FDI growth: from 4$ billion in 2000 to 35$ billion in 2012
  – Remittances amounted to 23$ billion in 2012
  – Net ODA and official aid amounted to 26$ billion in 2012

• Job-less growth
  – 35 million young people expected to enter labour force by 2020 (~6 million per year)

• Low productivity-based structural change
1. Almaty PoA: a Decade of growth without transformation

<table>
<thead>
<tr>
<th>GDP COMPONENTS</th>
<th>2000</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total value added</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Agriculture, hunting, forestry, fishing</td>
<td>25.6</td>
<td>16.3</td>
</tr>
<tr>
<td>Industry</td>
<td>28.1</td>
<td>36.9</td>
</tr>
<tr>
<td>of which</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Mining</strong></td>
<td>8.8</td>
<td>17.3</td>
</tr>
<tr>
<td><strong>Manufacturing</strong></td>
<td>13.6</td>
<td>12.2</td>
</tr>
<tr>
<td><strong>Construction</strong></td>
<td>5.6</td>
<td>7.4</td>
</tr>
<tr>
<td>Services</td>
<td>46.3</td>
<td>46.8</td>
</tr>
</tbody>
</table>
2. Key elements of structural transformation

• No country has moved up the development ladder without structural transformation

• Structural transformation:
  – Movement of resources from:
    • Traditional to new sectors/activities
    • Low to high value added
    • Low to high productivity sectors
    • Into technology-intensive activities

• Structural transformation takes place **within** and **across** sectors

• Productivity improvement is key for structural transformation to take place
3. Reflection on key drivers of structural transformation

Employment-rich growth: to achieve an inclusive and employment-intensive growth, UNCTAD proposes a **three-pronged approach**

- **Agriculture** (Subsistence /Commercial/ non-farm jobs)
- **Non-tradable sector** (absorbing surplus labour)
- **Tradable goods** (labour intensive / capital intensive – maintain export growth to generate foreign exchange)
3. Reflection on key drivers of structural transformation

PRODUCTIVE CAPACITY

(a country’s ability to produce high value-added goods and services efficiently and competitively)

PRODUCTIVE RESOURCES
- NATURAL RESOURCES
- HUMAN RESOURCES
- FINANCIAL CAPITAL
- PHYSICAL CAPITAL

ENTREPRENEURIAL CAPABILITIES
- CORE COMPETENCIES
- TECHNOLOGICAL CAPABILITIES

PRODUCTIVE LINKAGES
- BACKWARD AND FORWARD LINKAGES
- INFORMATION FLOW AND EXCHANGE OF EXPERIENCE
- RESOURCE FLOWS
- TERRITORIAL PRODUCTION CLUSTERS
- GLOBAL VALUE CHAINS
- LINKS BETWEEN FDI AND DOMESTIC ENTREPRENEURS
- LINKS BETWEEN LARGE FIRMS AND SMEs
3. Reflection on key drivers of structural transformation

- Investment, in particular from the public sector
  - No country has achieved sustained and inclusive economic development without significant public investment at their initial stage of development
  - Public investment, not public ownership
  - At early stage of development, private sector has limited capacity to generate the level of investment needed to develop productive capacities and drive structural transformation
3. Reflection on key drivers of structural transformation

- Investment...
  - External sources of finance – though critical – lack predictability and sustainability
  - Ultimately jobs are created and goods/services are produced by private sector, but public investment is needed to create an enabling environment (infrastructure, institutions …)
UNCTAD RECOMMANDATIONS

• For LLDCs, transit, transport, trade facilitation should continue to receive priority attention.
• The next decade should focus on growth with structural transformation
• Economic growth which does not create jobs is unsustainable
• Job creation without the development of productive capacity and structural transformation is equally unsustainable.
Thank you!

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