2nd UN Conference on Landlocked Developing Countries
High-Level Interactive Thematic Roundtable on Achieving Structural Transformation of LLDC economies
3 November 2014 - Boardroom A - 15:00-18:00
Statement by the Deputy Secretary-General of UNCTAD

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Excellencies,
Ladies and gentlemen,

I am honoured to take part in this Roundtable on achieving structural transformation in LLDC economies.

Being landlocked is a development challenge. But is it insurmountable? The Almaty Programme of Action rightly placed the emphasis on transit, infrastructure development, trade facilitation and the relations between landlocked and transit countries to mitigate the challenge. The issues related to geographical impediments are certainly important and should continue having a prominent role in the Almaty Programme successor document.

However, the challenges landlocked developing countries face go beyond the difficulties of delivering goods to international markets on time and at a reasonable cost.

LLDCs problems go deeper.

Imagine, for a minute, that these developing countries suddenly had improved transport infrastructure and access to the sea. What would be the effect for their economies and their development prospects?

If nothing else changed, very likely, they would continue being characterized by declining agricultural productivity, a relatively high incidence of extreme poverty, excessive dependence on primary products, low level skills and technological base and a private sector dominated by informality.
Let me develop further.
Between 2000 and 2012, landlocked developing countries, as a group, grew at a healthy annual average rate of 7%; exports of merchandise goods increased sevenfold in this period; and income per capita almost doubled in the last 2 decades. Despite this positive period of sustained economic growth, there is little evidence that growth was inclusive or that it led to a structural transformation in the developing land-locked economies.

Their exports remain concentrated in a few countries and in a small range of products. In 2012, 85% of total exports from LLDCs were composed of primary commodities, of which more than 50% were fuels and another 14% ores and metals. Moreover, the share of manufacturing exports declined from 22% in the year 2000 to 15% in 2012. Although an increase in the industry value added to GDP over the past decade is welcome, it is worrisome to notice that the bulk of it was due to mining, while the share of manufacturing in value added actually declined.

Furthermore, the sectoral composition of employment of LLDCs has remained identical throughout the decade. Agriculture still employed over 60% of the total workforce in 2010 – much the same as in 2000.

This economic specialization is of concern because it appears that LLDCs are specializing in transport-intensive raw materials — quite a paradox given the transport constraints they face.

LLDCs need to start creating new areas of activity, and shift resources from low value-added and low productivity sectors to higher-value added and high productivity ones. In other words, they need structural transformation.

Structural transformation can be the basis for sustained economic growth, and an important means to reduce poverty and foster equality. When technology and knowledge get better distributed among the different sectors of the population, so do productivity gains, which can in turn reduce income inequalities.

But structural transformation is not something that would necessarily occur naturally in an economy. Government action is required. And this is how industrial policy can play a crucial role: first by stirring the economy towards higher value added sectors and products; and second, by building the country's productive capacities needed for this shift.

Ladies and Gentlemen,
Since the very genesis of UNCTAD, 50 years ago, we began undertaking research to assist countries in building productive capacities and in fostering structural transformation. Let me try to illustrate, through the example of three products, how we have translated our research into products that deliver results.

The first relates to Foreign Direct Investment. Key to this structural change process is the adoption of strategies to attract FDI that target the promotion of activities which are less transport-intensive and thus, less sensitive to distance or transport costs. In this context, UNCTAD’s Investment Policy Reviews provide countries with an objective assessment of their institutional framework and strategic analysis on how to increase investment and maximize its benefits. Recommendations are country tailored, concrete and action-oriented. Some examples of our work with several LLDCs include Ethiopia, Rwanda, Moldova, Mongolia, and Zambia. The results of this work are visible. For instance, in Mongolia the Review has already produced concrete actions: the country's entire investment law was revamped and the national investment promotion agency transformed. In Rwanda, Foreign Direct Investment soared following the implementation of the Review we carried out in 2006.

Also, UNCTAD has created the iGuides, which have helped countries like Bhutan, Burundi, Nepal, Uganda, and Rwanda to provide investors with key objective information about business costs, investment opportunities, rules and procedures, key contacts and experiences of other investors.

The second product relates to technology and innovation, both at the heart of economic development. No country has been able to engage in a meaningful structural transformation without improving its technological and innovation capabilities. UNCTAD’s Science, Technology and Innovation Policy Reviews can be of great assistance to LLDCs. Through such a Review a country can identify the key strengths and weaknesses of its innovation systems and establish strategic priorities for development. One of the goals of the Review process is to formulate practical actions that favour the country’s capacity to generate, absorb and diffuse knowledge and transform it into socially and commercially valuable products and services.

And my third and last example refers to a new analytical product by UNCTAD to foster the process of structural transformation. Our analysis takes into account the current production structure of a country- and its embedded productive capacities—to then identify the sectors, activities and products which would add value to the
current production and where the country is more likely to succeed. Such an analysis is being used for the update of the Diagnostic Trade Integrated Study of Ethiopia as we speak, but we are looking forward to applying it to other countries as well.

Before I conclude, let me go back to my initial question: is being landlocked an insurmountable challenge?

The answer is no. And we do not need to look further than our host country, Austria, to find ample proof. Austria showed that there was no mountain high enough that will keep them away from the rest of Europe. The country's successful regional integration strategy turned landlocked into land-linked. Austria's geography was not the country's handicap, but rather the starting point to smartly specialize in those goods and services that better fit its reality and development needs.

UNCTAD is committed to help land-locked developing countries to find their own development paths. And I hope that the outcome document of this conference provides the framework to support these countries in their quest for sustainable and inclusive development.

Thank you very much