



**Summary Report of the High-Level Interactive Thematic Roundtable on
Achieving structural transformation of LLDC economies held on 3
November 2014, 15:00-18:00, Boardroom A, Vienna International
Conference Centre**

A. Introduction

The roundtable was chaired by H.E. Dr. Wolfgang Schüssel, Former Chancellor of the Federal Republic of Austria. The keynote speakers included: H. E. Mr. Ban Ki-Moon, Secretary-General of the United Nations; H.E. Mr. Giorgi Margvelashvili, President of Georgia; H.E. Mr. Filip Vujanovic, President of Montenegro; H.E. Ms. Isabella Lövin, Minister for International Development Cooperation, Sweden; and Ms. Helen Clark, Chair, United Nations Development Group. The panellists included: Mr. Kandeh Yumkella, Special Representative of the Secretary-General for Sustainable Energy for All and Chief Executive Officer of the Sustainable Energy for All initiative; Mr. Petko Draganov, Deputy Secretary-General of the United Nations Conference on Trade and Development (UNCTAD); and Mr. Steve Kayizzi-Mugerwa, Acting Chief Economist and Vice President of the African Development Bank.

The roundtable discussed in depth the importance of structural transformation of the economies of the landlocked developing countries. The discussion noted that while many LLDCs had made some progress over the past decade in overall economic performance, their economic and export structures are still less diversified as they continue to rely on the export of primary commodities more heavily than any other group of countries. Even more worrying, the positive trends in growth rates had not brought faster poverty reduction or greater progress in people's lives. Industries in LLDCs tend to be low-tech and with low productivity. Many businesses in these countries are extremely small, and many operate outside of formal markets. The roundtable stressed that structural transformation of the economies of the LLDCs is necessary to address the constraints that they face due to landlockedness, improve their competitiveness and achieve sustained and inclusive economic growth and substantial and broad-based improvements in human well-being.

Participants noted that structural transformation involved moving away from activities that are low value-added and low-productivity to activities that add more value and boost productivity. This involved increased value addition to agriculture, minerals and manufactured goods. With structural transformation, LLDCs can export goods that are low bulk – so they take up less precious transport space – with higher value. This will help the LLDCs to move up global value chains. Structural transformation also moves goods and workers out of the informal economy and into the markets. It creates better jobs and spreads knowledge and it also promotes competitiveness. It also involves increased export of services that do not require personal contact.

B. Summary of key actions and measures to promote structural transformation

The roundtable highlighted the following as key actions and measures needed to adequately promote structural transformation in LLDCs.

Regional integration is important

Structural transformation in landlocked developing countries requires enhanced regional co-operation through better border procedures and investments in transport, energy and ICT infrastructure systems to help them overcome the constraints of landlockedness. Regional integration is also important in creating integrated energy systems.

Leadership to design and effectively implement supportive policies is paramount

Conscious efforts must be made to design public policies to nurture structural transformation. LLDCs should develop their own home grown designed policies to improve overall competitiveness, diversify their economies and increase industrial capacity in terms of exporting higher-value products. There is a lot to do and a lot to learn from other countries on the right mix of policies. Government action with a clear leadership vision is required to design industrial policies that can stir the economy towards higher value added sectors and products and to build the country's productive capacities needed for this shift. Leadership in terms of clarity of what needs to be done is very important and there is need to actually lead the implementation of the plan. The example of how Rwanda was able to develop a clear vision and mobilize investment into ICT development was given. It was stressed that such a strategy needed to be replicated to other sectors that are crucial to nurturing structural transformation. Participants also stressed that there is need for very robust accountability systems.

The role of a capable and passionate private sector is crucial and there is need to enhance entrepreneurship. Greater private sector participation is important for creating employment and industrial capacity.

Structural transformation should be inclusive

The discussion underscored that structural transformation should be inclusive and fair meaning that economic reforms must be supported by investments in education and other social sectors in order to avoid any inequalities that might arise. It is also important to ensure that women and girls are not excluded in the structural transformation process. Human capacity development is very important in all its forms.

Structural transformation should be environmentally friendly

The roundtable stressed that structural transformation should ensure development of green

technologies that are important especially in the context of adaptation to climate change. It should involve a light footprint.

Technology and innovation are crucial.

No country has been able to engage in meaningful structural transformation without improving its technological and innovation capabilities. The roundtable noted that UNCTAD had a Science, Technology and Innovation Policy Review that can be of great assistance to LLDCs. Through conducting 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.

Peace and stability is important

The discussions in the roundtable emphasized that since structural transformation may take some time, peace and stability is important for any country to achieve structural transformation. In this regard the meeting stressed the need to address fragility and conflict in some LLDCs so that they can be on the path to achieve structural transformation.

Learning from other countries and experience sharing

The roundtable stressed the need for the LLDCs to learn from other countries that have successfully undertaken structural transformation. For example it is important to learn how structural transformation has taken place in China, India and other countries.

International support is important and partnerships are needed

International support in the form of technical and financial support from all stakeholders is important. Technical assistance to help design public policies and enable the LLDCs to exchange ideas is important.

C. Proceedings

Keynote Speakers:

1. His Excellency Ban Ki-moon, Secretary-General of the United Nations, noted that in the decade that the Almaty Programme of Action has been implemented, the LLDCs have experienced overall economic growth. The value of merchandise exports had increased, while their share of global exports had more than doubled. Foreign direct investment in LLDCs also increased over the review period.
2. However, he stressed that these trends are not benefitting all the LLDCs, and more worryingly, positive growth had not necessarily sped up poverty reduction or improved quality of life. He indicated that industries remained low-tech and with low productivity, and businesses tend to be extremely small and operating outside of formal markets. The Secretary-General asked for the Second LLDC Conference in Vienna to approach these problems holistically. Instead of simply addressing landlocked developing countries' problems in terms of trade and transport, he underscored that the fundamental issues blocking sustainable growth must be tackled. He indicated that the international community must strive to enable LLDCs to maintain high economic growth rates while creating decent jobs and reducing poverty.

3. The Secretary-General said that LLDCs economies would do well to move away from low value-added and low-productivity economies to add value and increase productivity. Examples of this might be the coffee bean and unprocessed minerals in many LLDCs. Both products are valuable; however, their trade would be much more profitable if they are incorporated into more complex products.

4. The Secretary-General said that using structural transformation, LLDCs can export goods that are low bulk with higher value. This reduces transport costs and in the end may also benefit the environment. Structural transformation also has the potential to move goods and labour from the informal economy into open markets. For any sort of structural change to occur, LLDCs must gear their economies to higher value products.

5. The Secretary-General said the United Nations would assist LLDCs with logistics, designing public policies and more. The framework of donors, development finance institutions and businesses would also be helpful in achieving structural transformation.

6. His Excellency Mr. Giorgi Margvelashvili, President of Georgia, began by saying his own country, while not a landlocked state, is very much connected in its policy to the issues of landlocked developing countries. Out of 14 countries in Eurasia, eight are linked to Georgia and depend on it for access to a sea. Georgia has been dedicated to developing its policies regarding the LLDCs. This has been a strategic direction for Georgia since its independence – linking the resources of Central Asia to the markets in Europe, and vice versa.

7. H.E. Margvelashvili said his country had been developing its agenda regarding LLDCs on several different levels. Firstly, Georgia has been active in developing infrastructure that provides transit through its territories. The state has been developing roads, highways, ports as well as a railway system linking Azerbaijan to Turkey. Public and private sector partners on the Asian and European sides have been invited to help develop these infrastructure projects.

8. Secondly, Georgia has been open to important energy transport projects for oil and gas. In particular, the country is a key partner in linking Caspian Sea energy to Europe, with a project currently being developed between Azerbaijan, Georgia and Turkey, further strengthening the link with Europe.

9. Thirdly, Georgia has been a proponent of free trade in the Euro-Asian context. The country itself has free-trade agreements with seven of its eight landlocked neighbours and is developing joint infrastructure to facilitate transport in the area. Furthermore, Georgia has been engaged in the transport of electricity and trying to link this question to the agendas of the LLDCs.

10. Finally, Mr. Margvelashvili noted that one of most important requirements for facilitating trade is keeping peace and stability in a particular region. In the Euro-Asian context in particular, the Black Sea region has experienced a tumultuous 2014. The President of Georgia called for states to be very actively engaged in opening economic possibilities as well as securing peace, stability and opportunities.

11. His Excellency Mr. Filip Vujanović, President of Montenegro, stressed the necessity for mobilization of additional international support for LLDCs as well as the renewal of partnership with international financial and development institutions. Among the prerequisites for economic progress are: the development of infrastructure; integration of transport systems, especially trans-national railways; and fostering a legal basis for cooperation with transit states. Mr. Vujanović pointed out that the job of the United Nations in this context includes better coordination of technical and financial assistance on part of UN agencies, the World Bank, International Finance Corporation and other major donors and international organizations.

12. Although over the last decade, effective mechanisms such as trade facilitation, aid for trade and aid for development have been implemented in LLDCs, today we are faced with the same basic problems. How do we respond to development challenges such as distance? How do we attract foreign investments? The fact is that, beside the achieved technological progress, access to ports and transport is still paramount, and trade remains a significant economic stimulus.

13. Mr. Vujanović said that Montenegro has good political relations with its neighbours and facilitates border crossing – administrative and physical. The country also has plans to expand its investments in regional infrastructure projects. Among these projects are the Belgrade Bar Railway and the development of the Adriatic Port of Bar. In addition, Montenegro participates in several important energy projects, including the Southern Corridor (TANAP-TAP) and Ionian Adriatic Pipeline (IAP).

14. The President of Montenegro said his country remains committed to the Almaty Declaration and Programme of Action, and will continue to support LLDCs and UN agencies in developing the Global Framework for Transit Transport Cooperation. The particular issue of transit cooperation, Mr. Vujanović said, should be included in the post-2015 Development Agenda, as it will help LLDCs participate in the international and regional trade system.

15. Her Excellency Isabella Lövin, Minister for International Development Cooperation, Sweden, said that in today's interconnected world, the issues of the 32 LLDCs should lead to greater cooperation, not less. LLDCs face inherent disadvantages such as vast distances and high transport cost, and these challenges are sometimes exacerbated by trade barriers and political factors. Nonetheless, it is clear that not all landlocked states are struggling, and not all coastal states are prospering. There are other factors at play. Ms. Lövin's message was that being landlocked has important implications; however, it does not necessarily undermine the potential for development. LLDCs can make conscious political choices that can create intentional societal rewards.

16. Ms. Lövin said that in landlocked developing countries, due to high transport costs, the production of low-value goods and the export of raw materials are rarely successful. And as landlocked countries, it is hard to compete with other states exporting similar goods. Instead, progress lies in developing comparative advantages that are not low-value goods or raw materials, but rather higher value products.

17. Another path to progress is the trade of services, which does not require a physical presence. Information and Communication Technology (ICT) has proven effective in this sense because of the low transport costs. In LLDCs with limited trade and Foreign Direct Investment (FDI), governments must promote technological change and increase

competitiveness. Sweden, as co-chair of negotiations for the Vienna Programme of Action, is devoted to free and fair trade as ways of enhancing opportunities for LLDCs, Ms. Lövin said.

18. Another important comparative advantage for LLDCs to develop is clean energy, Ms. Lövin said. Many landlocked countries have faced and will continue to face droughts and other natural disasters. As the world tries to remain within the 2 degree target, investing in oil and gas pipelines is not a good idea. Instead LLDCs should invest in clean energy – solar, wind, hydroelectric, etc. This will make them self-sufficient, which would be the greatest comparative advantage imaginable in our time.

19. Sweden has had a long-standing history of development cooperation, Ms. Lövin said. The country's Official Development Assistance (ODA) has doubled over the past 10 years and will remain at one percent of gross domestic income. Ms. Lövin illustrated that strategic policy indeed matters using example of Sweden's support to Moldova and Rwanda. Moldova, following its independence, remained quite isolated from global and European markets. Strict EU visa requirements complicated the situation further. Swedish support to Moldova helped the country break down non-geographic barriers, and in the eight years since 2006, Moldova has decreased its poverty rate by about half, to 16.6 percent. In the case of Rwanda, Sweden has been active in assisting with economic and social reconstruction following the 1994 genocide. The country's exports of high-quality coffee sell at 2-3 times the price of regular coffee, which compensates for the costs incurred during transport. In summary, Ms. Lövin made the point that landlocked countries must never accept the role of victim. On their part, the best recipe for development is to pursue a sustainable energy strategy that would give LLDCs a comparative advantage.

20. Ms. Helen Clark, Chair, United Nations Development Group and administrator of UNDP, said that structural transformation is about diversifying LLDCs' economies and moving them up the value chain, echoing what the Secretary-General and Ms. Lövin previously said. This diversification, done well, will expand local and productive capacities, attract investment and reduce poverty and inequality. Ms. Clark also expressed her support for renewable energy as a path toward sustainable development.

21. Structural transformation, according to Ms. Clark, must be inclusive and fair, the result may be greater inequality. Social sector reforms such as investment in education and training of displaced workers must be the foundation for any sort of economic reform.

22. In terms of greener, climate-resilient economies, she said that one of the most promising cases is Ethiopia. It aims to be a middle-income state by 2025 without increasing its greenhouse gas emissions. In this regard, the UNDP, among other agencies, has worked with the Ethiopian government to form seven sector teams and engage more than 20 national institutions.

23. Ms. Clark said that a national economy cannot improve in isolation, especially in today's age of globalization and global value chains. Almost all developing states with the biggest gain made in the Human Development Index have also integrated more with the world economy. For many LLDCs, structural transformation will occur only with economic integration – especially regional. Easing of border restrictions and investments in infrastructure between neighbours will help landlocked states overcome some geographic constraints.

24. The UN development system will continue to be a strong advocate for people-centered development, as the aim of structural transformation is not simply faster GDP growth. The goal is that growth to be translated into higher living standards and more opportunities for the 400-million-plus people living in LLDCs. In order to enable people to take advantage of economic growth, there must be access to education and decent work.

Panellists:

25. Mr. Kandeh Yumkella, Special Representative of the Secretary-General for Sustainable Energy for All and CEO of the Sustainable Energy for All initiative, focused on the question of energy as it is related to sustainable development. He also endorsed what Ms. Clark had previously said, especially the diversification of economies and industrial transformation in terms of exporting higher-value products.

26. The panellist said that access to energy will be crucial to the sustainable development of LLDCs. Right now Burkina Faso, Mali and Burundi are paying some of the highest premiums on energy, between 40 and 70 cents per kilowatt-hour. Therefore access to energy will be the key to their prosperity, transformation and to their ability to add value to products. There are some lessons to be learned from the European Union. The EU was built around a handful of commodities, one of which was coal, the other one, steel. As seen in the EU, regional integration is key, and that regional integration between LLDCs has to include energy trading. In the context of energy trading, we need to look at regional interconnection systems, transmission lines that connect energy-rich countries to their energy-lacking neighbours. We need to look at cooperation in using water resources effectively.

27. In conclusion, the panellist reiterated that a lot can be learned from regions – in particular, the European Union, and how it had created integrated energy systems. This model will be crucial for the landlocked developing countries.

28. Mr. Petko Draganov, Deputy Secretary-General of the UN Conference on Trade and Development (UNCTAD), said that the challenges of LLDCs go much deeper than high transit costs. Between 2000 and 2012, LLDCs grew at 7 percent per year, on average; merchandise exports increased sevenfold; and income per capita almost doubled. However, this growth has not been especially inclusive and little structural transformation had occurred. In 2012, 85 percent of exports from LLDCs were composed of primary commodities, 50 percent of which were fuels and another 14 percent ores and metals. It is worrisome that the bulk of GDP growth was due to mining, while the share of manufacturing in value added actually declined. It seems that LLDCs are specializing in transporting raw materials, which is paradoxical given the transit costs and other limits they face.

29. The panellist said that LLDCs needed to start creating new areas of activity, as well as shift from low value-added and low productivity sectors to higher-value added and high productivity. This structural transformation could provide an important means to reduce poverty and foster equality. And as technology and knowledge are distributed among the different sectors of the population, so do productivity gains increase, which can in turn reduce income inequality. For any sort of structural transformation to occur, there needs to be government action in the form of industrial policy: first by pushing the economy toward higher value-added sectors; and second, by building the country's productive capacities needed for the aforementioned shift.

30. The panellist gave three examples of how UNCTAD, since its inception 50 years ago, have translated their research into results. First, the key to structural change is attracting FDI that promote less transport-intensive activities. UNCTAD's Investment Policy Reviews, in such cases, provide countries with a strategic analysis on how to increase investments. Examples of this can be seen in Ethiopia, Rwanda, Moldova, Mongolia and Zambia. UNCTAD's iGuides have also provided LLDCs with key objective information about business costs, investment opportunities, rules and procedures, and more.

31. Second, UNCTAD's Science, Technology and Innovation Policy Reviews can also be of great assistance to LLDCs. The Review identifies strengths and weaknesses of innovation systems and helps a country establish strategic priorities for development. This is an important resource, as technological and innovation capabilities are absolutely necessary in order to perform any sort of meaningful structural transformation.

32. Finally, the panellist indicated that UNCTAD is undertaking analytical work, which takes into account the current production structure of a country – as well as its productive capabilities – and then identifies the sectors, activities and products which would add value to the current production. This is currently being used to update the Diagnostic Trade Integrated Study of Ethiopia.

33. Mr. Steve Kayizzi-Mugerwa, Acting Chief Economist and Vice President of the African Development Bank, opened his speech with a number of facts related to the economic and logistical challenges that the African LLDCs face. Among them were: African LLDCs' economies are mainly based on agriculture, mining or exploitation of natural resources; they often score lower than their peers on the cost and ease of doing business and on the human development index; and although GDP per capita is lower than the continent's average, LLDCs have posted rapid growth in the past decade.

34. The panellist said that structural transformation can occur in a number of ways – in a range of political and economic contexts – and there is no “right” template to follow. However, Mr. Kayizzi-Mugerwa's own research suggests that history has taught us a few important lessons: (1) Economic transformation is never automatic. Competent leadership is important, as governments must be capable of creating timely and effective policy; (2) Transformation requires the engagement of the people; (3) The population must benefit, even in the short term. (4) Domestic tensions must be managed, because in situations where power distribution is uneven, so will the benefits and costs of economic change.

35. The panellist listed a number of preconditions for sustainable growth and economic transformation in African LLDCs. (1) Regional integration – when neighbouring countries work together, borders cease to be serious impediments to the movement of goods and services. AfDB studies have shown that countries that are well integrated regionally tend to attract more investment. They are also less prone to civil conflict, as their territorial isolation is reduced. (2) Infrastructure development – the lack of transport and communications infrastructure is the very essence of being an LLDC. High freight costs imply that LLDCs' comparative advantage is eroded, therefore there is clearly a need for regional projects that would reduce the isolation of LLDCs in Africa. (3) Good neighbourhoods – this enables countries to do business without interruption. Experience shows that African LLDCs have suffered economically when their neighbour with access to the sea experienced serious domestic problems. This highlights the importance of having multiple points of access to the sea in order to avoid overreliance on a single country.

36. The panellist then explained the African Development Bank's involvement in the structural transformation of African LLDCs. Regional integration is the *raison d'être* of the AfDB, Mr. Kayizzi-Mugerwa said. The bank has contributed to the Program for Infrastructure Development in Africa (PIDA), a continent-wide project sanctioned by the African Union. In 2013 the AfDB came out with a 10-year strategy for the period up to 2022, which will focus on inclusive growth and transition to green energy. The plan emphasizes infrastructure development, governance – including capacity building, economic integration of the continent, and skills development. Lastly, the bank has created the Africa50 fund to deal with the continent's infrastructure gap, which is estimated to be \$50 million per year.

Interventions:

37. The Hon. Yamfwa Mukanga, Chair of the Group of LLDCs and Minister of Transport, Works, Supply and Communications of Zambia, said that the critical challenge for LLDCs remains their inability to initiate a sustained process of structural transformation. This would entail a shift in policies in the economic sphere and in the social spheres as well as a change from low value-added products and low productivity to higher value-added and higher productivity activities. So far, however, there has been a lack of improvement in productivity, domestic value-addition and long-term structural transformation. LLDCs continue to export primary commodities and technologies remain old and thus limited to low productivity in most sectors, especially in agriculture, mining, manufacturing and services. In addition, the overall economic growth in LLDCs has not strengthened their capacities to deal with environmental hazards.

38. The Chair of the Group said that in order for structural transformation to succeed, there needed to be a concerted effort by both the LLDCs themselves and development partners. That would mean revising old development policies as well as refining the international mechanisms provided by the partner countries. The development of productive capacities should be paramount. This will require investment in hard and soft infrastructure, developing capable institutions, enhancing entrepreneurship and skills development, and new technologies. He also put emphasis on the development of the energy sector as a way of industrializing and diversifying LLDCs' economies.

39. The Chair of the Group concluded with the point that there is no single solution for LLDCs. Instead they must design specific solutions for their particular challenges. Policies and strategies should be based on the specific socio-economic circumstances, resource base, institutional capabilities and overall condition of the economy. Finally, it is important for LLDCs to foster an environment enabling a sustained structural transformation to take place, via appropriate policies, supportive institutional framework, adequate investment, and technological innovation.

D. Discussion

40. In the discussion that followed, it was agreed that there was no single answer to the question of structural transformation in landlocked developing countries. A participant echoed a point made previously, that LLDCs should design their own policies and strategies based on their specific capacities and economic situations. Despite the obvious need for

custom-tailored structural changes, participants agreed that there were some markers of success that were common to almost all countries.

41. The meeting agreed that among the most basic requirements for structural transformation were peace and stability. This means peace and stability in a region as well as within the country itself. Such an environment consequently opens the door for regional integration and free trade agreements. Given several times as an example was the case of Europe. At war for thousands of years, the continent's European Union now conducts 80 percent of its trade intra-regionally. Participants agreed that there is enormous potential for similar regional integration and opening of markets for landlocked developing countries as well.

42. A participant highlighted the importance of leadership in structural transformation. Successful leadership is necessary in order to enact policies conducive of sustainable growth, however, what is perhaps even more important is integrating society and making people be part of the structural change. If people are integrated, then development would not depend on a single leader, and a successful structural transformation could occur regardless of who is in power. The meeting agreed that change is indeed necessary, but there are two possible paths that leaders can take – either create fear or create hope. And hope is stronger than fear.

43. Participants also stated their support for small and medium-sized enterprises and businesses (SMEs). SMEs in particular are very important because they often are the ones who create jobs as well as contribute to regional wealth and regional development. Large companies, while vastly important in their own ways, do not need the support of Intergovernmental organisations and governments. Supporting SMEs, who contribute to growth and provide employment, is massively important for the structural transformation of a country.

44. The meeting talked about the need for LLDCs to move away from low-tech low value-added products and to higher-tech higher value-added productive activities. Returning to statistics provided by UNCTAD, 85 percent of exports from LLDCs were composed of primary commodities, 50 percent of which were fuels and another 14 percent ores and metals. In addition, the bulk of GDP growth was due to mining, while the share of manufacturing in value added actually declined. Participants agreed that LLDCs needed to explore new areas of activity, and shift from low value-added and low productivity sectors to higher-value added and high productivity. This could provide an important means to reduce poverty and foster equality.

45. Finally, participants commented on the importance of Information Technology, and in particular, digitalization. The digitalization of countries' economies is an enormous challenge as well as a huge opportunity for landlocked developing countries. Because physical distances are no longer an issue, LLDCs have the potential to compete on a more even ground with other countries. The advancements made in IT, still growing exponentially, allow for the rapid transfer of ideas and the education of people in the most remote parts of LLDCs. The trade of goods and services is also made easier by technological advancements. It was pointed out, however, that this opportunity provided by IT could also create a digital gap between those who choose to take advantage of it and those who do not.