Study Overview

Co-funded research project of the ITLLDC /the Group of 77 (Perez-Guerrero Trust Fund and ITLLDC), research on “Economic diversification of LLDCs: Case of Mongolia, Nepal, Bhutan and Paraguay”.

The research project aimed to analyze the trends, opportunities and obstacles of economic, export and market diversification in Bhutan, Nepal, Mongolia and Paraguay and to recommend policy options for further structural transformation.

The research project was implemented from October 2017 to May 2018.

Research method: Herfindahl-Hirschman Index (HHI)
-measuring of concentration in conjunction with new or alternative measures, present a clear, multidimensional and insightful picture of the current state of economic diversification of the countries, covering various aspects.
The alternative diversification indicators converted into similar format (range 0 to 1, where higher scores indicate higher concentration, less diversification)
Study Overview

Key economic attributes of the four landlocked countries under investigation

- Bhutan
- Mongolia
- Nepal
- Paraguay
Case of Mongolia

Country Analysis and economic overview:

Total area: 1,566,000 km²      Population: 3.1 million (source: UNFPA data)      GDP per capita: US$ 3,611 (source: UNCTAD 2017)

GDP growth rates for Mongolia and China (% per annum)

Value added (% of GDP)
Case of Mongolia

Economic diversification
Total exports by main commodity group and partner

2015
- Agricultural products
- Manufactures
- Fuels and mining products
- Other

Top 5 export destinations 2016 (US$ million)
- China: 3,883
- UK: 787
- Russia: 56
- Germany: 43
- Italy: 34

Top 5 import origins 2016 (US$ million)
- China: 1,040
- Russia: 862
- Japan: 331
- Korea, Rep.: 198
- US: 139
Case of Mongolia:

Policy framework:
- National Development Strategy (NDS) 2007 - 2021,
- Government target - growth rates:
  - 14% in annual GDP in the period of 2007-2015,
  - 12% in the period of 2016-2021.
- Roads and highways infrastructure programmes - successful.
- Economic activity in non-extractive industries - increased.
- Mechanisms for accumulating resource rents - weak.
- Efforts to improve trade conditions and ease of doing business - positive.
### Case of Mongolia

#### Investment and private sector: Investment by sector (million USD)

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<thead>
<tr>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture, forestry and fishing</td>
<td>21.0</td>
<td>23.3</td>
<td>38.0</td>
<td>64.6</td>
<td>50.0</td>
<td>88.2</td>
<td>139.7</td>
<td>147.5</td>
</tr>
<tr>
<td>Mining and quarrying</td>
<td>487.0</td>
<td>1,761.7</td>
<td>5,195.5</td>
<td>4,694.5</td>
<td>3,031.5</td>
<td>917.2</td>
<td>1,374.8</td>
<td>1,457.3</td>
</tr>
<tr>
<td>Processing industries</td>
<td>60.9</td>
<td>71.5</td>
<td>92.1</td>
<td>139.2</td>
<td>228.7</td>
<td>418.9</td>
<td>351.1</td>
<td>81.7</td>
</tr>
<tr>
<td>Utilities</td>
<td>120.8</td>
<td>103.8</td>
<td>207.0</td>
<td>171.6</td>
<td>199.4</td>
<td>310.9</td>
<td>331.3</td>
<td>348.1</td>
</tr>
<tr>
<td>Construction</td>
<td>148.4</td>
<td>262.8</td>
<td>990.7</td>
<td>913.8</td>
<td>802.8</td>
<td>1,098.8</td>
<td>788.3</td>
<td>1,331.9</td>
</tr>
<tr>
<td>Wholesale and retail</td>
<td>304.7</td>
<td>497.7</td>
<td>326.9</td>
<td>1,466.5</td>
<td>480.7</td>
<td>835.0</td>
<td>424.6</td>
<td>502.2</td>
</tr>
<tr>
<td>Transportation and storage</td>
<td>126.4</td>
<td>136.7</td>
<td>280.1</td>
<td>510.5</td>
<td>212.7</td>
<td>356.8</td>
<td>83.0</td>
<td>406.6</td>
</tr>
<tr>
<td>Information and communication</td>
<td>34.9</td>
<td>60.4</td>
<td>91.6</td>
<td>156.2</td>
<td>388.5</td>
<td>273.4</td>
<td>225.8</td>
<td>157.2</td>
</tr>
<tr>
<td>Financial and insurance</td>
<td>71.4</td>
<td>103.3</td>
<td>227.2</td>
<td>168.3</td>
<td>216.0</td>
<td>410.3</td>
<td>151.2</td>
<td>130.0</td>
</tr>
<tr>
<td>Real estate activities</td>
<td>26.9</td>
<td>89.7</td>
<td>64.0</td>
<td>39.3</td>
<td>150.2</td>
<td>118.9</td>
<td>39.1</td>
<td>161.8</td>
</tr>
<tr>
<td>Public administration and defence</td>
<td>374.1</td>
<td>370.3</td>
<td>373.6</td>
<td>429.1</td>
<td>401.8</td>
<td>427.2</td>
<td>380.3</td>
<td>500.4</td>
</tr>
<tr>
<td>Educational services</td>
<td>158.1</td>
<td>79.2</td>
<td>140.3</td>
<td>122.3</td>
<td>126.7</td>
<td>359.1</td>
<td>232.8</td>
<td>302.8</td>
</tr>
</tbody>
</table>
Investment and private sector:

Mongolia Export Development Project was launched in 2016 with the help of a modest loan of 20 million dollars from the World Bank.

Main goal was to support development of Small and Medium Enterprises (SMEs), which currently provide almost half of the jobs in the country.

Mongolia has good potential to develop niche industries such as organic products including cosmetics, foods and artisanal products.
Case of Mongolia:

Challenges

- Reliance on two neighbors for access to overseas markets,
- Low population,
- Harsh climatic conditions,
- Stark dependency on the mining and quarrying sector,
Opportunities and policy recommendations:

- Imbalances caused by such concentrated growth can be alleviated with proper policy and, equally importantly, efficient implementation.
- Accumulate capital from proceeds of mineral rents and to efficiently deploy it to diversify the economy, strengthen human capital and develop industries that reduce economic dependence on commodities exports.
- Develop a sustainable mining industry.
- Create fair and stable conditions for further development of the key mining and quarrying sector.
- Implement policies to accumulate and deploy resources to create a more balanced economy.
- Partial or total privatization of certain sectors.
- Further investing in road infrastructure.
- Streamlining and modernizing business procedures.
- Increasing support to SMEs.
- Capitalizing on ‘organic’ agriculture practices to win international markets.
- Integrating registration and electronic information system for food safety.
- Re-branding to increase the market share.
- Encouraging and developing nascent industries.
Case of Nepal

Country Analysis and economic overview

Total area: 147,181 km²      Population: 29.6 million (source: UNFPA data)      GDP per capita: US$ 852 (source: UNCTAD 2017)

GDP growth rates in Nepal versus neighboring Asian states (%)

Value added by economic sectors (% of GDP)
Case of Nepal

Economic diversification

Total exports by main commodity group and partner

<table>
<thead>
<tr>
<th>Year</th>
<th>Agricultural products</th>
<th>Manufactures</th>
<th>Fuels and mining products</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>27.5%</td>
<td>62.4%</td>
<td>1.8%</td>
<td>8.3%</td>
</tr>
</tbody>
</table>

Top 5 export destinations 2015 (US$ million)

<table>
<thead>
<tr>
<th>Country</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>India</td>
<td>419</td>
</tr>
<tr>
<td>United States</td>
<td>70</td>
</tr>
<tr>
<td>Germany</td>
<td>27</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>21</td>
</tr>
<tr>
<td>Turkey</td>
<td>13</td>
</tr>
</tbody>
</table>

Top 5 import origins 2015 (US$ million)

<table>
<thead>
<tr>
<th>Country</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>India</td>
<td>4,008</td>
</tr>
<tr>
<td>China</td>
<td>920</td>
</tr>
<tr>
<td>UAE</td>
<td>266</td>
</tr>
<tr>
<td>Indonesia</td>
<td>118</td>
</tr>
<tr>
<td>Switzerland</td>
<td>112</td>
</tr>
</tbody>
</table>
Case of Nepal

Policy framework:

- National Trade Integration Strategy (NTIS) 2015,
- Government target:
  - Regional and global value chains both for goods and services;
  - Services trade in activities of marked comparative advantage; and
  - E-commerce for high-quality, low-volume segments.
Case of Nepal

Investment and private sector:

Foreign direct investment, net inflows (% of GDP)

Nepal’s private sector is dominated by small-and medium-size enterprises, which comprised more than 90% of the total registered businesses.

The World Bank’s Nepal Enterprise Survey 2013 shows that about 60% of the formal non-agricultural private sector is in wholesale and retail business, followed by 15% in hotels and restaurants, and 12% in manufacturing.
Case of Nepal

Challenges

- Lack of skilled workers,
- Weaknesses of the National Trade Integration Strategy by targeting export sectors,
- Enabling higher economic growth rates,
- Structural transformation through proper mobilization of domestic and foreign investment,
- Lack of physical infrastructure and technology development.
Case of Nepal

Opportunities and policy recommendations:

- Utilize geological and cultural diversities to promote the tourism sector;
- Increase public capital expenditure through prioritization of expenditures, maintaining financial discipline,
- Use the remittances to retrain or further train workers,
- Policies and initiatives aimed at increasing investment, diversifying its export and dealing more efficiently with migrant remittances,
Case of Bhutan

Country Analysis and economic overview:

Total area: 38 394 square kilometers  
Population: 822 628 (source: UN data)  
GDP per capita: US$ 3,197 (source: UNCTAD 2017)

GDP growth across Bhutan, India and Nepal (% per annum)

Share of manufacturing value added in GDP (%)
Case of Bhutan

Economic diversification
Total exports by main commodity group and partner

<table>
<thead>
<tr>
<th>2015</th>
<th>Top 5 export destinations 2015 (US$ million)</th>
<th>Top 5 import origins 2015 (US$ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Agricultural products</td>
<td>0.7 7.6%</td>
<td>India 333</td>
</tr>
<tr>
<td>Manufactures</td>
<td></td>
<td>Germany 60.2</td>
</tr>
<tr>
<td>Fuels and mining products</td>
<td>44.1%</td>
<td>France 15.3</td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td>Italy 11.3</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Nepal 10.9</td>
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<tr>
<td></td>
<td></td>
<td>Singapore 9.9</td>
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<tr>
<td></td>
<td></td>
<td>China</td>
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</tbody>
</table>
Case of Bhutan

Policy framework:

11th Five year plan by the Gross National Happiness Commission, Royal Government of Bhutan:

- Rapid Investment in Selected Sector (RISE) Programme to provide credit to SMEs in key areas;
- promotion of agro-processing business and diversification in cropping patterns (hazelnuts, oranges) to increase exports;
- expansion of the tourist industry by re-examining restrictive policies towards FDI and tourist numbers;
- investing in transport infrastructure especially roads and Paro airport;
- laying our four SEZs and two science parks - the latter to develop an ICT industry; and
- applying principles derived from the VPoA on connectivity by opening a ‘dry port’ and improving links and facilities for international trade.
Case of Bhutan

Government policy to promote economic diversification:

- Economic Development Policy (2010 & 2016)
- Public Debt Policy (2016)
- Public Private Partnership Policy (2016)
- National Employment Policy (2013)
Case of Bhutan

Challenges

- Single market dependency
- Reliance on two neighbors for access to overseas markets,
- Extreme low in number of population,
- Small businesses have a very high rate of failure,
- Although the GDP of Kingdom of Bhutan increased significantly in recent years, it is still highly reliant on Indian energy sector,
Opportunities and policy recommendations:

- Development of production and export of electricity lead to growth of GDP however, due to the existence of only one partner, it creates a high risk of “Dutch disease” and leads to a very sensitive economy.
- Accumulate capital from export of electricity and efficiently deploy it to diversify the economy, strengthen human capital and develop industries that reduce economic dependence on single market.
- Establish new export channels for electricity e.g. Bangladesh.
- Diversify transit transport channels to access the sea e.g. Bangladesh sea ports.
- Implement policies to accumulate and deploy resources to create a more balanced economy.
- “Liberalize” parts of economy and attract greater inflows of Foreign Direct Investments.
- Further investing in infrastructure development.
- Open boarders to foreigners and immigrants and create “identity-neutral” market place for all actors.
- Increasing support to SMEs.
- Support development of private sector businesses.
- Support tourism sector to benefit from its full potential.

Case of Bhutan
Case of Paraguay

Country Analysis and economic overview:

Total area: 406,752 km²  
Population: 6.9 million (source: UN data)  
GDP per capita: US$ 4,290 (source: UNCTAD 2017)

GDP growth rates in Paraguay versus other landlocked countries in this study (%)

Share of manufacturing value added in GDP (%)
Case of Paraguay

Economic diversification

Total exports by main commodity group and partner

<table>
<thead>
<tr>
<th>2015</th>
<th>Top 5 export destinations 2015 (US$ million)</th>
<th>Top 5 import origins 2015 (US$ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Brazil 3,011</td>
<td>China 2,645</td>
</tr>
<tr>
<td></td>
<td>Argentina 851</td>
<td>Brazil 2,358</td>
</tr>
<tr>
<td></td>
<td>Russia 655</td>
<td>Argentina 1,429</td>
</tr>
<tr>
<td></td>
<td>Chile 519</td>
<td>US 703</td>
</tr>
<tr>
<td></td>
<td>Italy 309</td>
<td>Japan 240</td>
</tr>
</tbody>
</table>

- Agricultural products: 0.5%
- Manufactures: 26.1%
- Fuels and mining products: 10%
- Other: 63.4%
Case of Paraguay

Policy framework:

National policy documents -

The industrial plan presented by the Ministry of Industry and Trade in March 2017 identifies opportunities in the agricultural sector, taking soy as a starting point for its relevance to new linkages within the sector.

The Ministry of Industry and Trade recommends that the country exports fewer soy beans and instead uses them to manufacture fishmeal and oil, which can then be exported at a greater profit.
Case of Paraguay

Investment and private sector:

- Economic Development Policy (2010 & 2016),
- maintains special customs regimes, such as a free zone regime,
- Law No. 60/90, incentives to investors to promote domestic production,
- Legislation to encourage PPPs (Public Private Partnerships) was passed in 2013,

Investment under Law No. 60/90 (million US$)
Case of Paraguay

Challenges

- Overdependence on the agricultural sector,
- Difficulty in maintaining fiscal discipline under the fiscal law,
- Increase in the productivity of agricultural sectors and sustainability,
- Value chain financing,
- Access to source of public funding,
- Infrastructure needs,
Opportunities and policy recommendations:

To mitigate the challenges and capitalize on the opportunities, Paraguay could consider policies and initiatives aimed at ensuring inclusive economic growth and sustainable development.

- Boosting competitiveness
- Enabling more conducive business practices, combating red tape and corruption
- Using rich water resources and hydroelectric potential
- Increasing tax revenues and productivity gains
- Improving the distributional effect of the agricultural sector
- Strengthening resilience to climate shocks
- Promoting R&D and research capabilities - boosting innovation capacity
Summary - Diversification comparison

Mongolia

- Agricultural products: 9%
- Manufactures: 0.7%
- Fuels and mining products: 7.6%
- Other: 80.2%

Nepal

- Agricultural products: 1.8%
- Manufactures: 8.3%
- Fuels and mining products: 62.4%
- Other: 27.5%

Bhutan

- Agricultural products: 0.7%
- Manufactures: 44.1%
- Fuels and mining products: 47.5%
- Other: 7.6%

Paraguay

- Agricultural products: 0.5%
- Manufactures: 26.1%
- Fuels and mining products: 10%
- Other: 63.4%
## Summary - Export/import comparison

### Mongolia

<table>
<thead>
<tr>
<th>Top 5 export destinations 2016 (US$ million)</th>
<th>Top 5 import origins 2016 (US$ million)</th>
</tr>
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<tbody>
<tr>
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<td>3,883</td>
</tr>
<tr>
<td>UK</td>
<td>787</td>
</tr>
<tr>
<td>Russia</td>
<td>56</td>
</tr>
<tr>
<td>Germany</td>
<td>43</td>
</tr>
<tr>
<td>Italy</td>
<td>34</td>
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</tbody>
</table>

### Bhutan

<table>
<thead>
<tr>
<th>Top 5 export destinations 2015 (US$ million)</th>
<th>Top 5 import origins 2015 (US$ million)</th>
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</thead>
<tbody>
<tr>
<td>India</td>
<td>183</td>
</tr>
<tr>
<td>Germany</td>
<td>9.1</td>
</tr>
<tr>
<td>France</td>
<td>4.3</td>
</tr>
<tr>
<td>Italy</td>
<td>3.5</td>
</tr>
<tr>
<td>Nepal</td>
<td>2.7</td>
</tr>
</tbody>
</table>

### Nepal

<table>
<thead>
<tr>
<th>Top 5 export destinations 2015 (US$ million)</th>
<th>Top 5 import origins 2015 (US$ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>India</td>
<td>419</td>
</tr>
<tr>
<td>United States</td>
<td>70</td>
</tr>
<tr>
<td>Germany</td>
<td>27</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>21</td>
</tr>
<tr>
<td>Turkey</td>
<td>13</td>
</tr>
</tbody>
</table>

### Paraguay

<table>
<thead>
<tr>
<th>Top 5 export destinations 2015 (US$ million)</th>
<th>Top 5 import origins 2015 (US$ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brazil</td>
<td>3,011</td>
</tr>
<tr>
<td>Argentina</td>
<td>851</td>
</tr>
<tr>
<td>Russia</td>
<td>655</td>
</tr>
<tr>
<td>Chile</td>
<td>519</td>
</tr>
<tr>
<td>Italy</td>
<td>309</td>
</tr>
</tbody>
</table>
THANK YOU FOR YOUR ATTENTION