Regional Review Meeting of Latin American countries in preparation for the Comprehensive Midterm Review of the Vienna Programme of Action for Landlocked Developing Countries for the Decade 2014–2024

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(Session 5) Structural Economic Transformation: Conceptual, policy and statistical issues with implications for LLDCs
Outline of the presentation

I. Key messages from the presentation
II. What do we mean by structural economic transformation? Conceptual (definitional) issues
III. Why does structural economic transformation matter for LLDCs?
IV. What drives structural transformation?
V. How do LLDCs compare with ODCs on structural transformation? Statistical (measurement) issues
VI. Policy implications in the context of MTR and beyond
I. key messages from the presentation

**Message 1:** With primary commodities-driven growth, breaking middle-income trap could be long and more challenging for LLDCs;

**Message 2:** Without productive capacities, structural transformation cannot be sustainable.

**Message 3:** No country has successfully moved the development ladder without fostering productive capacities and structural transformation;

**Message 4:** Industrial development – in particular manufacturing – is a critical component of the structural transformation process. However, structural transformation can also take place in agriculture and services;
Key messages... (continued)

Message 5: What and how you produce and export matter for structural transformation. Diversification, value addition with more sophistication of products and services, determine the quality of growth and the pace of structural transformation;

Messages 6: Public investment in infrastructure, education, health and other services is critical for structural transformation;

Message: Proactive and developmental state is critically important to foster structural transformation;

Message 8: Vibrant and dynamic private sector is key for strategic integration into the global economy, and regional and global value chains.
II. What is Structural Economic Transformation?

Shifting resources and policy focus:

FROM
- traditional sectors
- traditional activities
- low-productivity
- low-technology

New sectors
New activities
Higher productivity
Higher technology

Structural transformation takes place:

- *within* sectors
- *across* sectors
III. Why Structural Transformation matters?

- It is essential for growth and development because it leads to:
  - productivity growth with decent and skilled jobs;
  - learning, capital and knowledge accumulation;
  - higher income and improved aggregate demand;
  - Unleashing comparative advantage;
  - technological learning, innovation and upgrading;
  - diversification of exports with technological sophistication;
  - resilience building and sustained economic growth and development with high standards of living.
In the context of LLDCs structural transformation is key to

- Accelerate and sustain high and inclusive economic growth;
- Maximize employment intensity of economic growth;
- Build economic resilience and reduce shocks and structural vulnerability;
- Enhance export diversification and competitiveness;
- Augment economy-wide productive capacities through accumulation, linkages and dynamic gains;
- Transform economies of LLDCs from low-income to middle and high-income (i.e. breaking the low-income middle-income trap)
Breaking low-income trap remains a challenge for LLDCs: (1987 as a base year)
ODCs broke low-income trap in a short period of time: 1987 as a base year
IV. Drivers of Structural Transformation

1. Developmental State and institutions capable of:

a) formulating and implementing sound policies; creating “policy space” and exploiting this for development;

b) harnessing core productive resources and opportunities for development;

c) mobilizing financial resources for development (domestic resources, public investment and new sources of investment);

d) driving industrialization by enhancing forward and backward linkages with agriculture, services including education and health services; and

e) calibrating strategic integration into the global economy, including through regional and global production networks
2. Productive Capacities (productive resources, entrepreneurship and production linkages)

3. Industry / Manufacturing - Opportunity for:
- Raising productivity and enhancing competitiveness
- Technological upgrading and Innovation
- Virtuous link between demand and supply side
- Productive employment

However, agriculture and services are also important
V. How do LLDCs compare with ODCs on structural transformation?: Statistical (measurement) issues

We Compare the performance of LLDCs on the basis of:

i. Economic Fitness Ranking

ii. UNCTAD’s Productive Capacities Index (8 categories and 54 indicators)

iii. Energy category of PCI

Structural Transformation category

• Manufacturing Value Added

• Export Concentration Index/ Diversification indices
1. Economic Fitness Ranking for Selected Countries (1994 - 2014)
Within LLDCs Bolivia and Paraguay performed better
Manufacturing Value Added (MVA): LLDCs, ODCs, Paraguay & Bolivia (1990-2017)
Merchandise Export Concentration and Diversification Indices: LLDCs Vs Bolivia and Paraguay

**Merchandise Export Concentration Index**

- Bolivia
- Paraguay
- LLDCs

**Export Diversification Index**

- Bolivia
- Paraguay
- LLDCs
i. Policies and strategies that generate higher economic growth may no longer be adequate to enable LLDCs to break the middle income trap. Therefore, new generation policies and strategies are needed;

ii. New generation domestic policies and strategies need to place fostering productive capacities, export diversification and structural economic transformation at the center;

iii. Governments should lead the process of structural transformation through public investment in infrastructure. However, dynamic and vibrant private sector is necessary;

iv. International supports need to be scaled-up and geared towards enhancing productive capacities, export diversification and structural economic transformation.