



Structural Transformation and its Role in Poverty Reduction

*Findings and perspectives of the ESCAP Countries with Special Needs
Development Report 2019*

**Expert group meeting on structural economic transformation
in North and Central Asia**

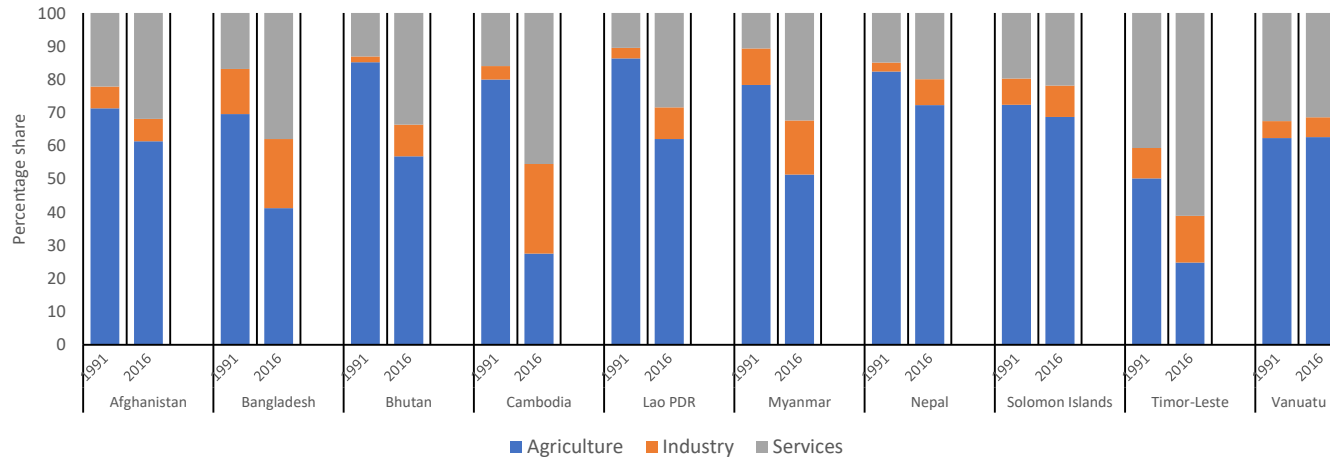
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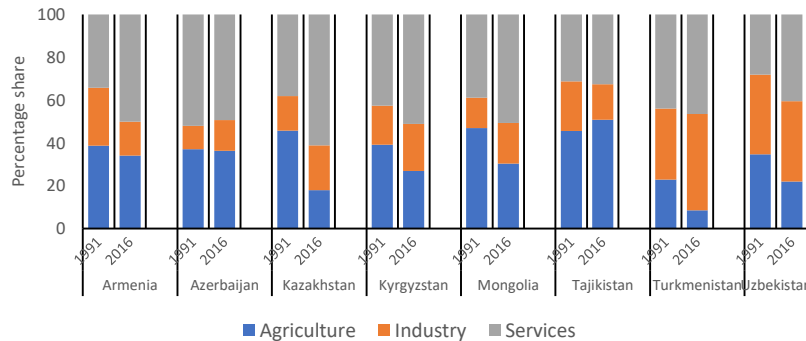
ESCAP

Trends in emp shares: Where do countries stand?

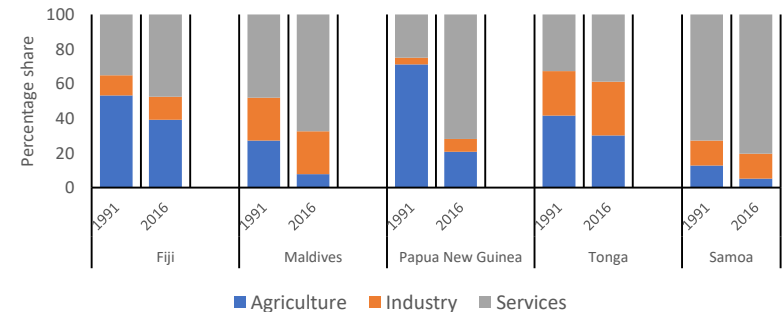
Least developed countries



Landlocked developing countries

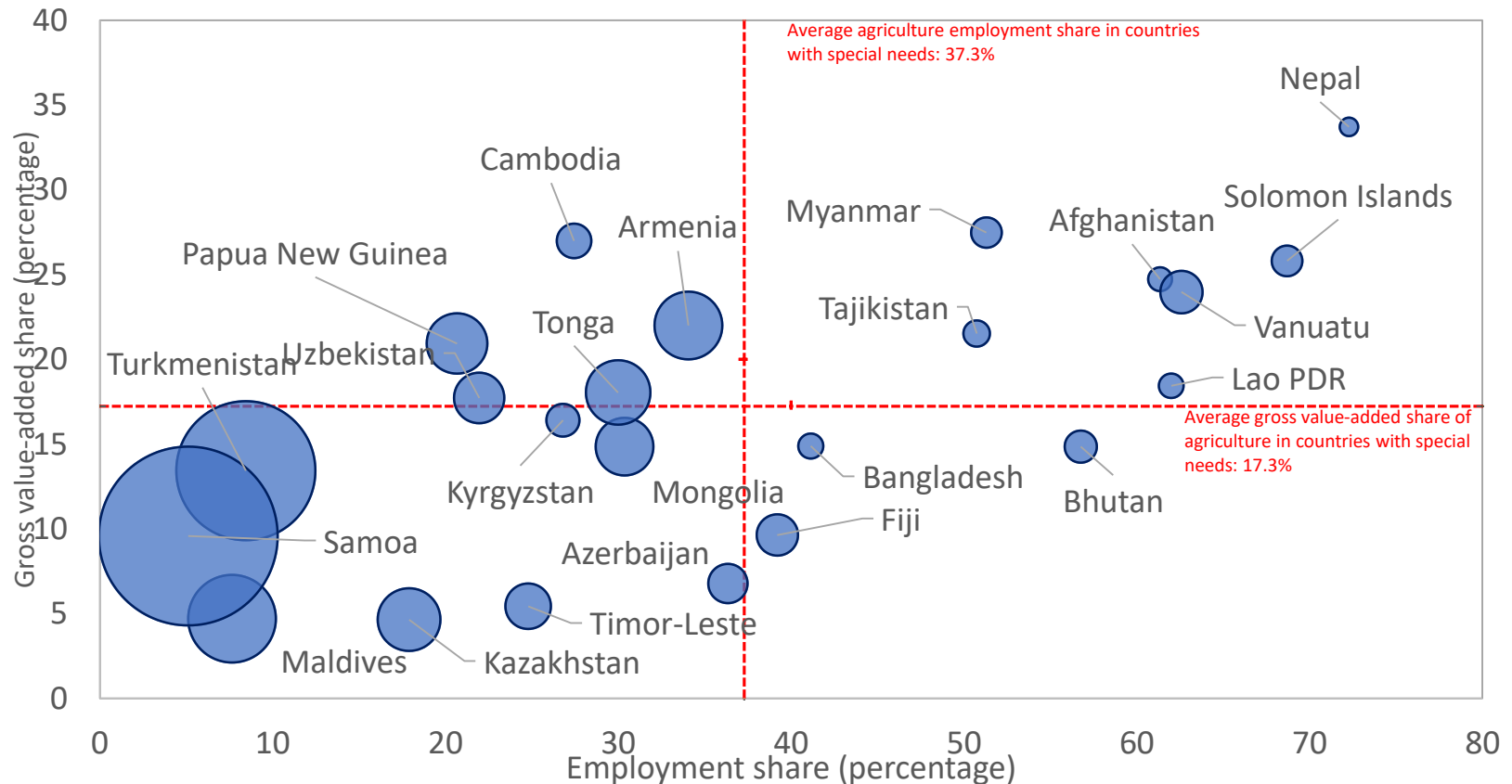


Small island developing States



- Structurally underdeveloped: Agriculture > Industry and services
- Structurally developing: Services > Agriculture > Industry
- Structurally developed: Services > Industry > Agriculture

Economies gaining most by moving out of agriculture

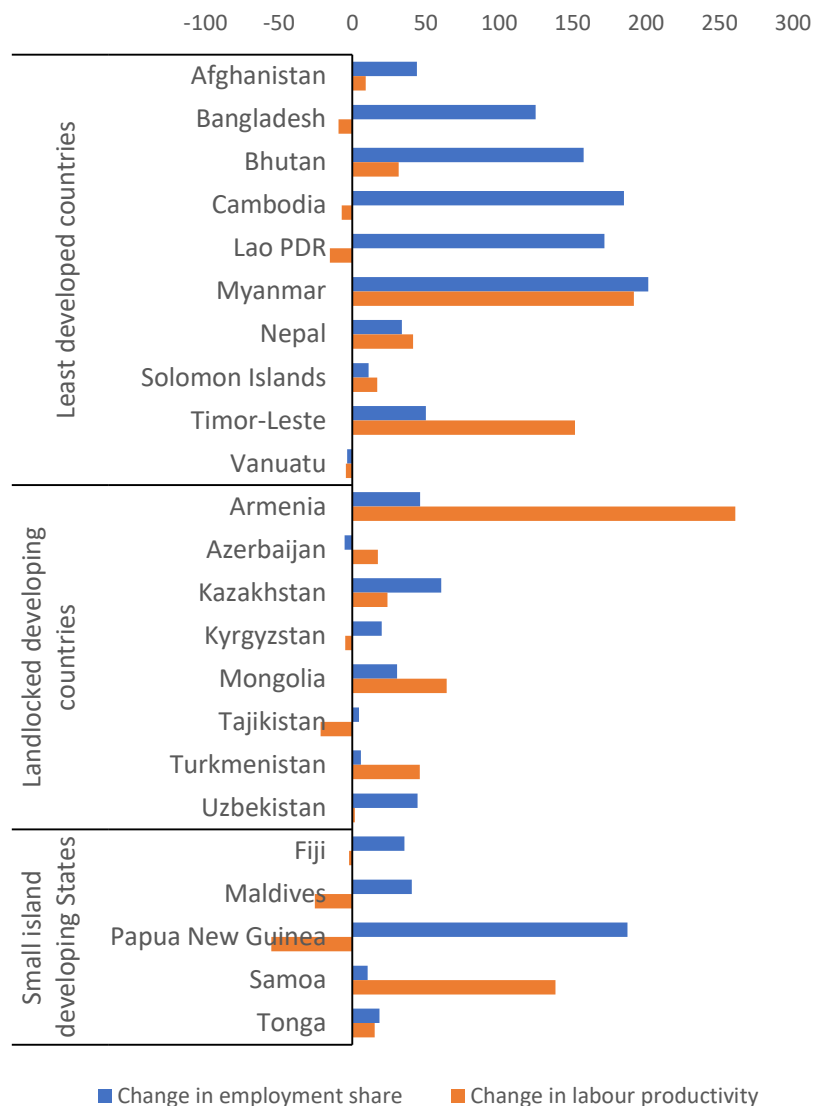


Countries in the upper right quadrant stand to gain the most from reallocation

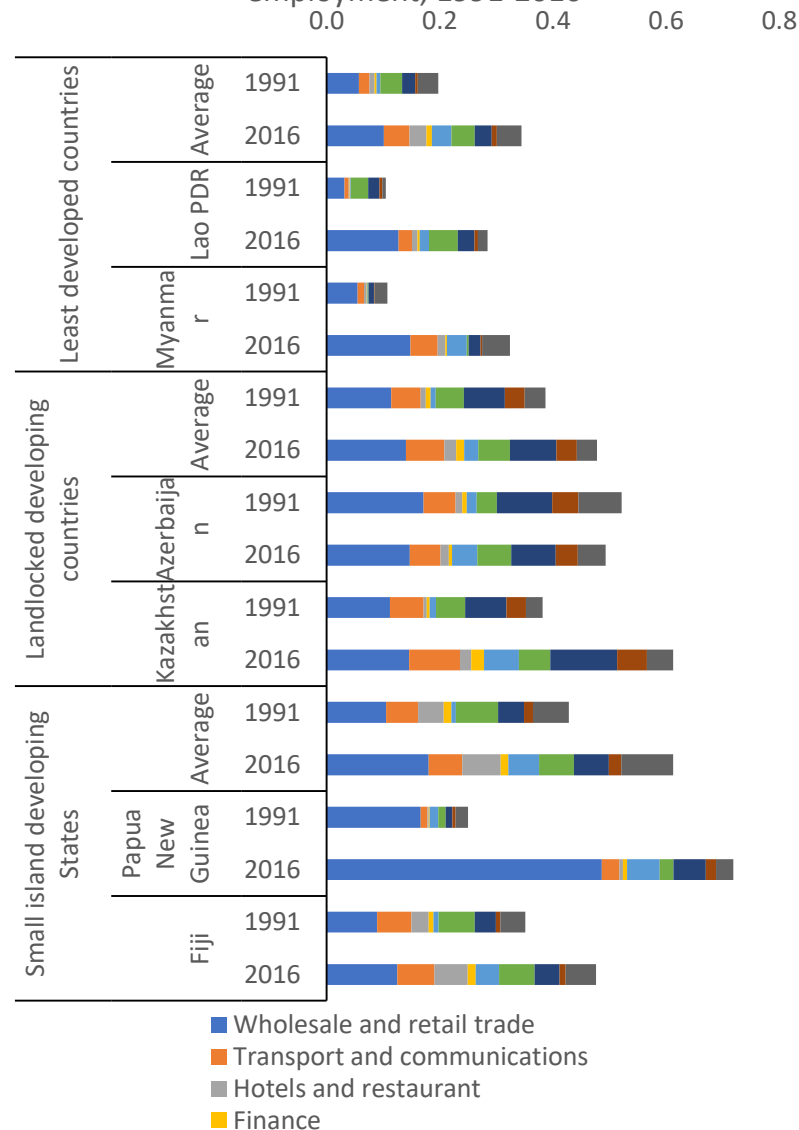
- Employment and GDP shares are higher than average.
- Labour productivity in the sector is also low.

Movement to services; mostly low productivity informal activities

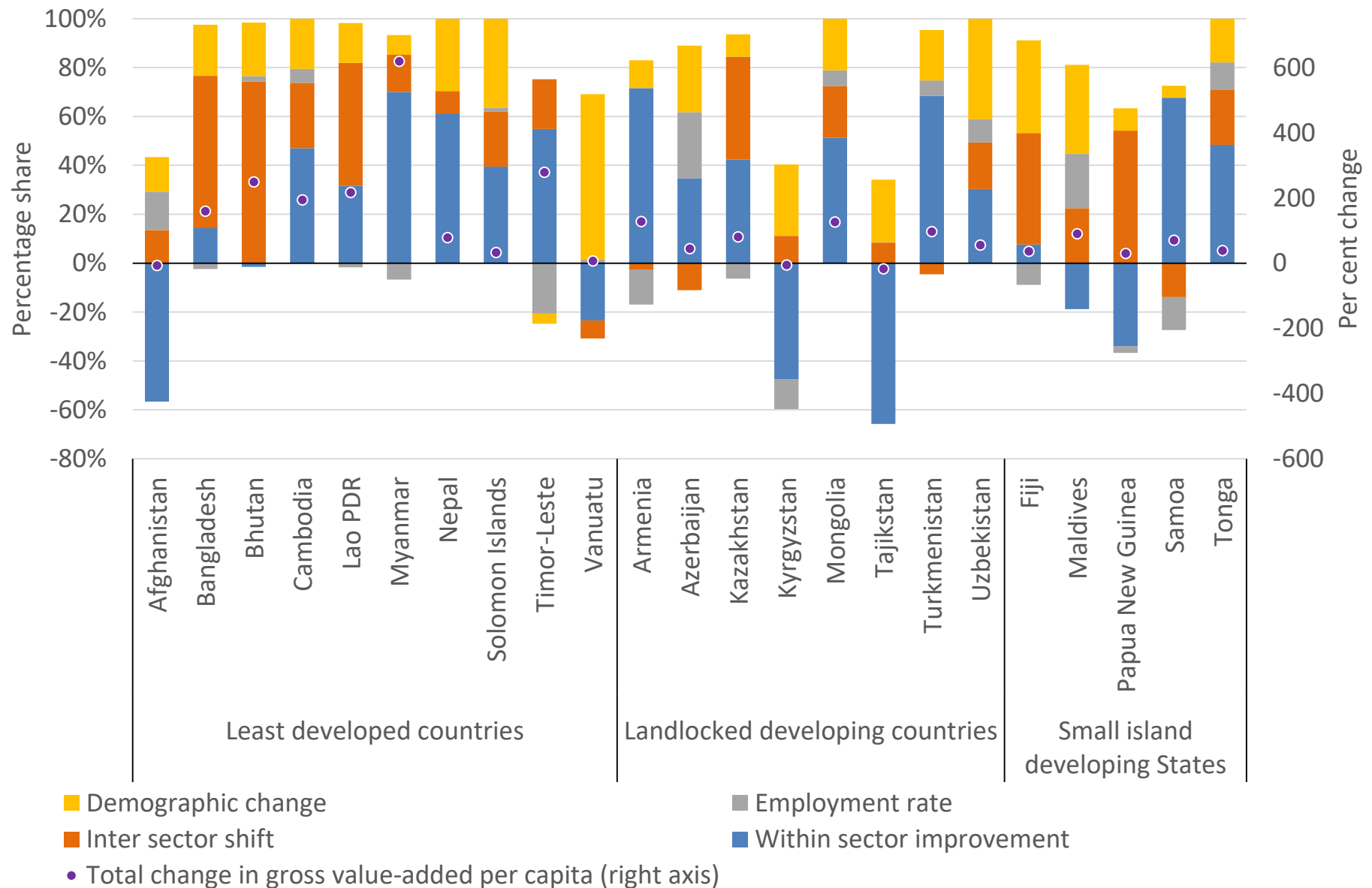
A. Percentage changes in employment share and labour productivity of services, 1991-2016



B. Services subsectors: Share of total employment, 1991-2016



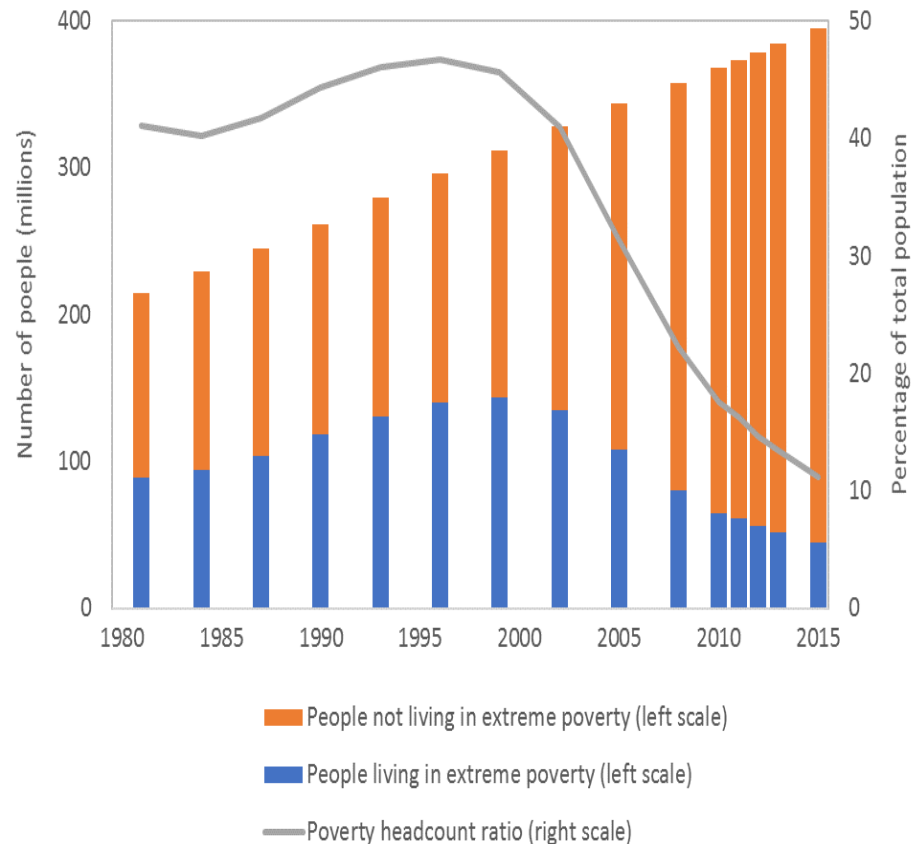
Decomposing productivity changes (1991-2016)



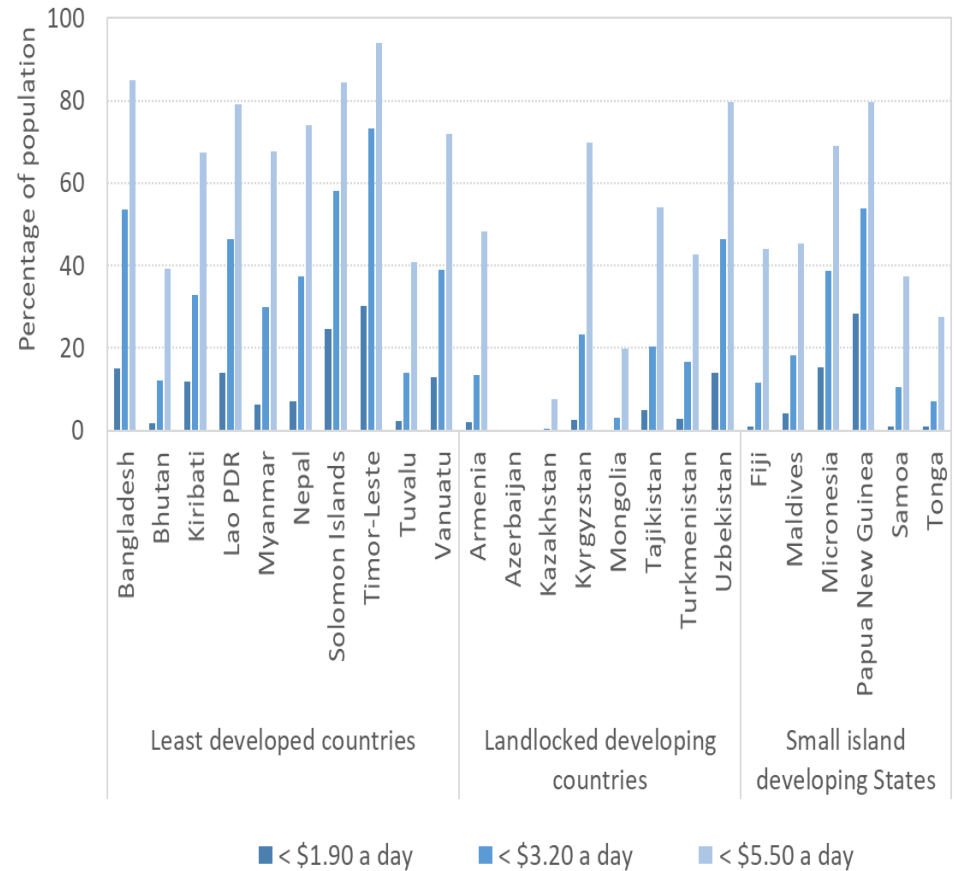
Structural transformation and poverty reduction

Despite significant reductions income poverty persists

Number (left) and share (right) of people living under the \$1.90 international poverty line in Asia-Pacific countries with special needs, 1981-2015

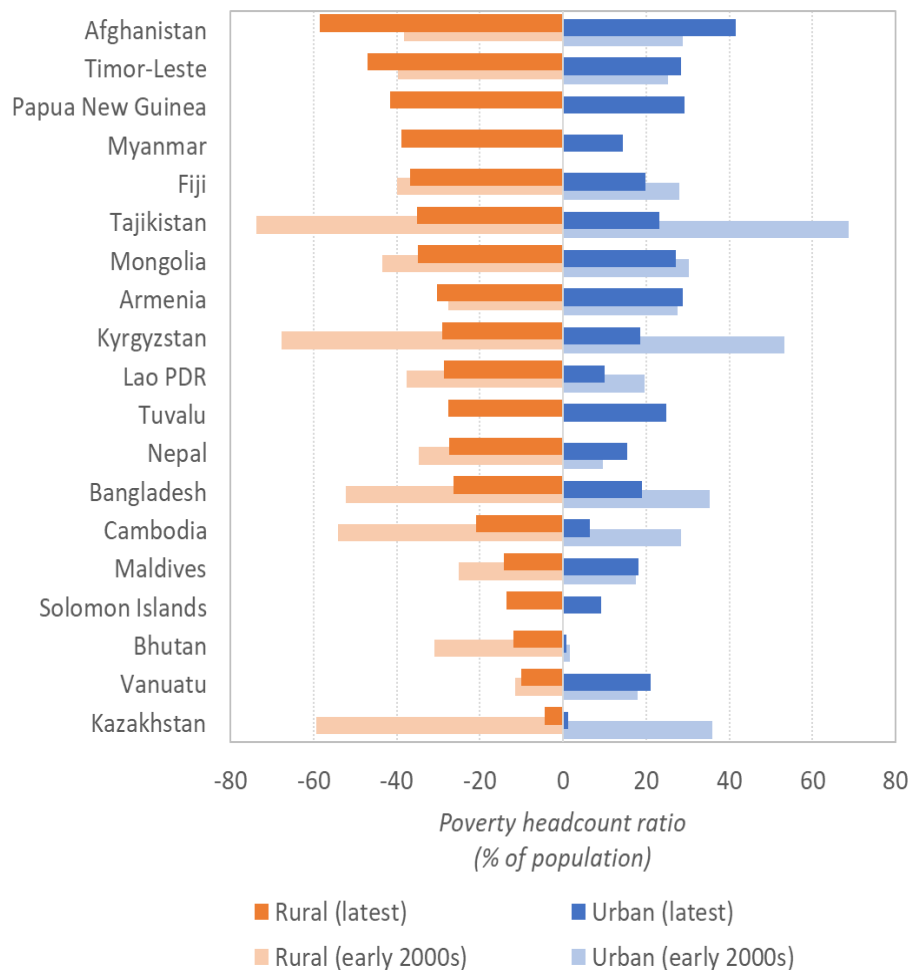


Poverty reduction at the \$1.90, \$3.20 and \$5.50 international poverty lines, 2015

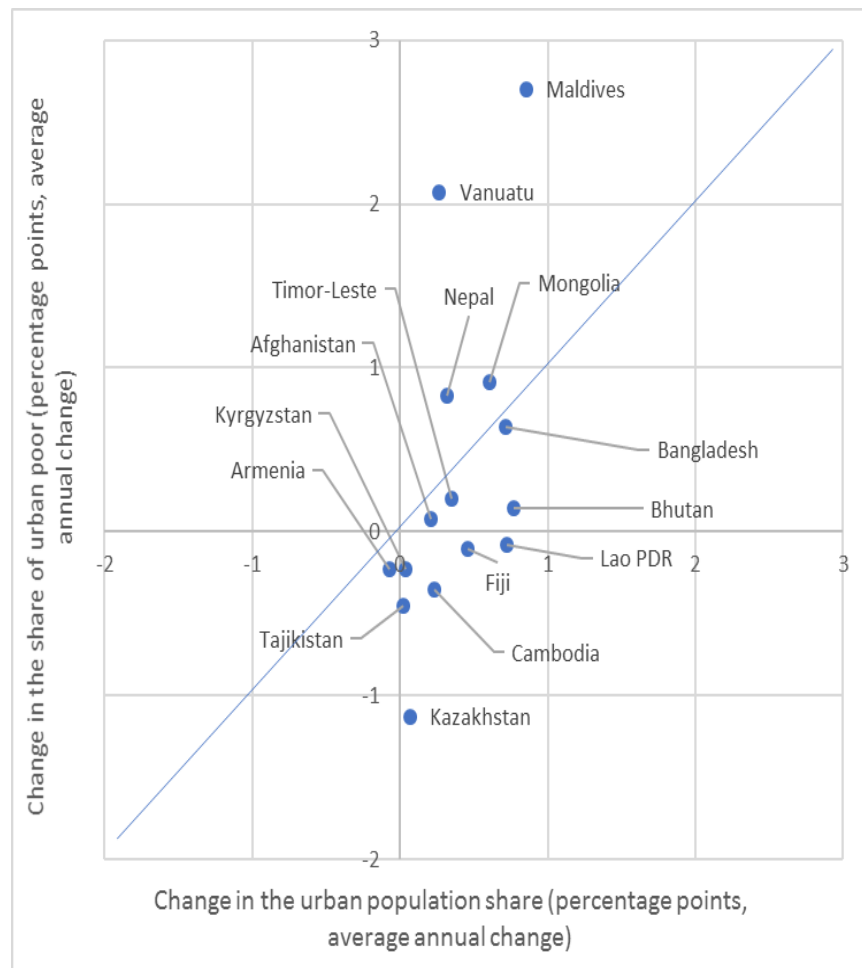


Despite largely rural concentration, urbanization of poverty is also evident

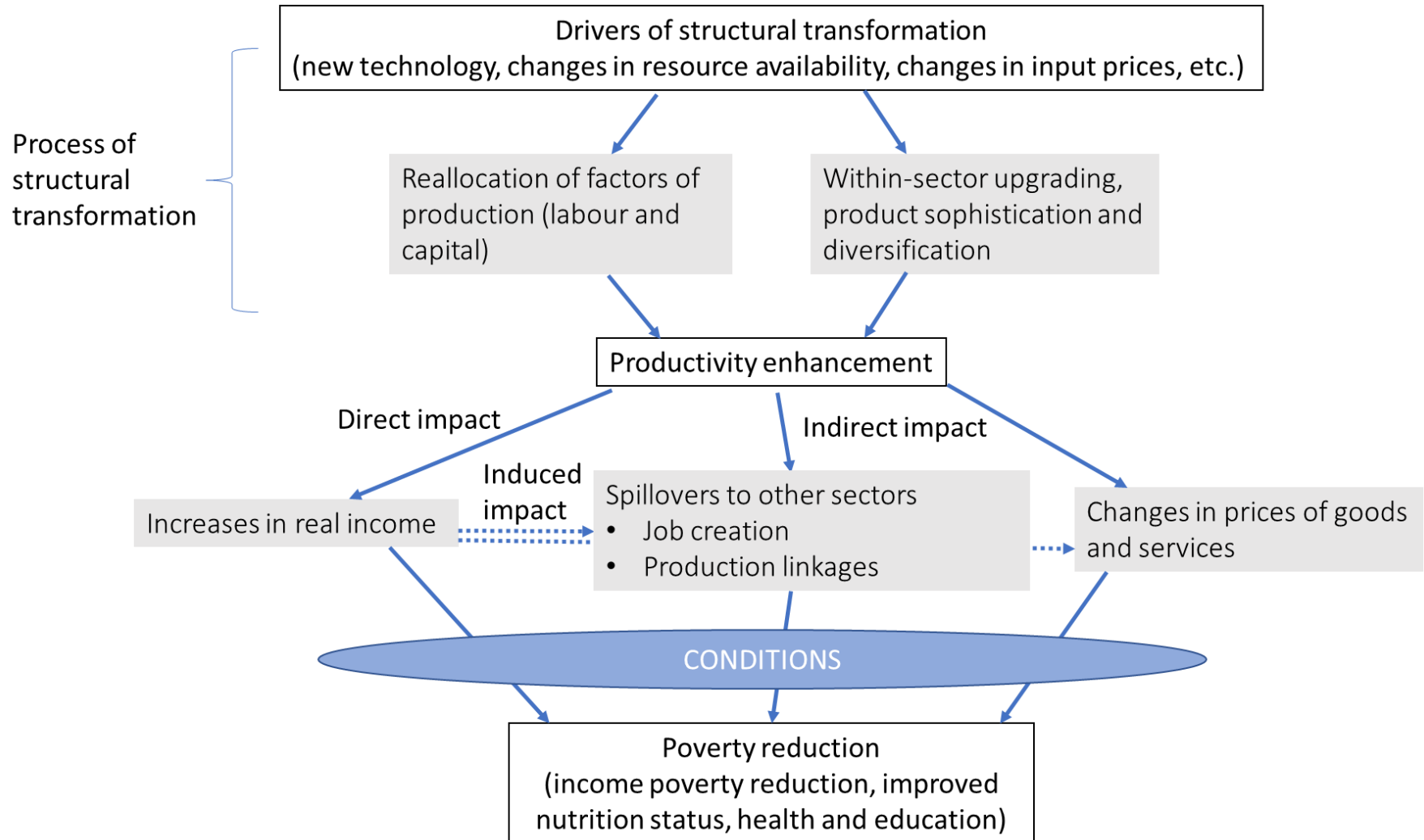
Poverty headcount ratios at the national poverty lines, rural and urban, early 2000s and most recent



Change in share of urban poor (relative to the change in urban population share), annual change, 2000-2016



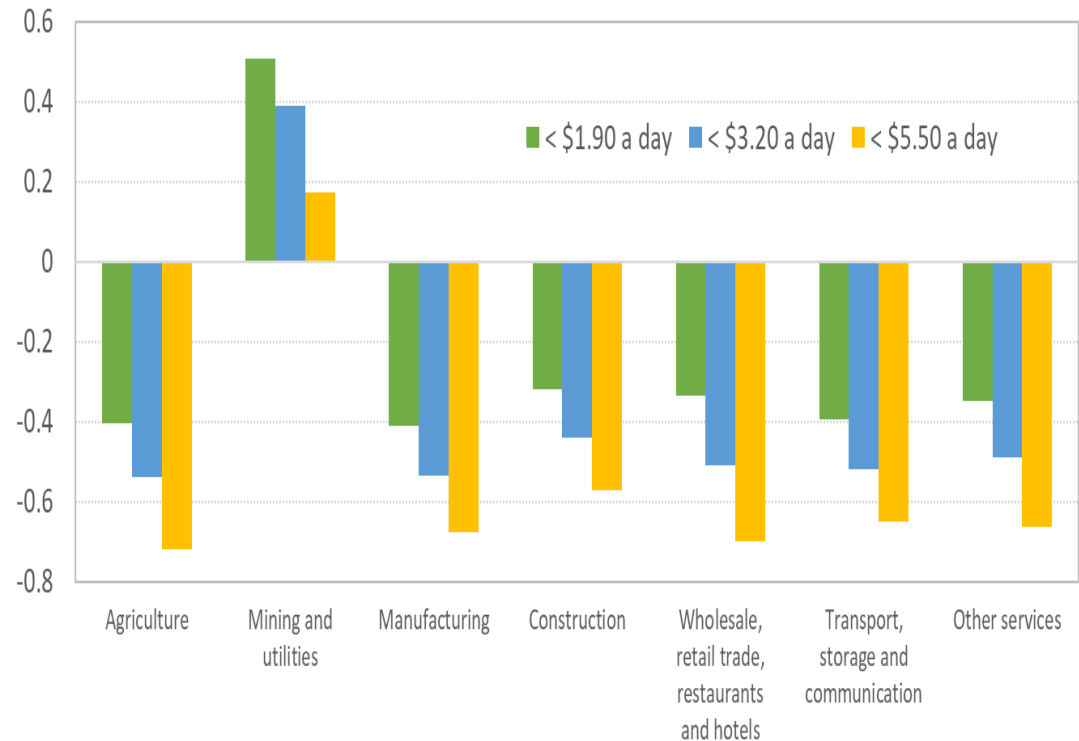
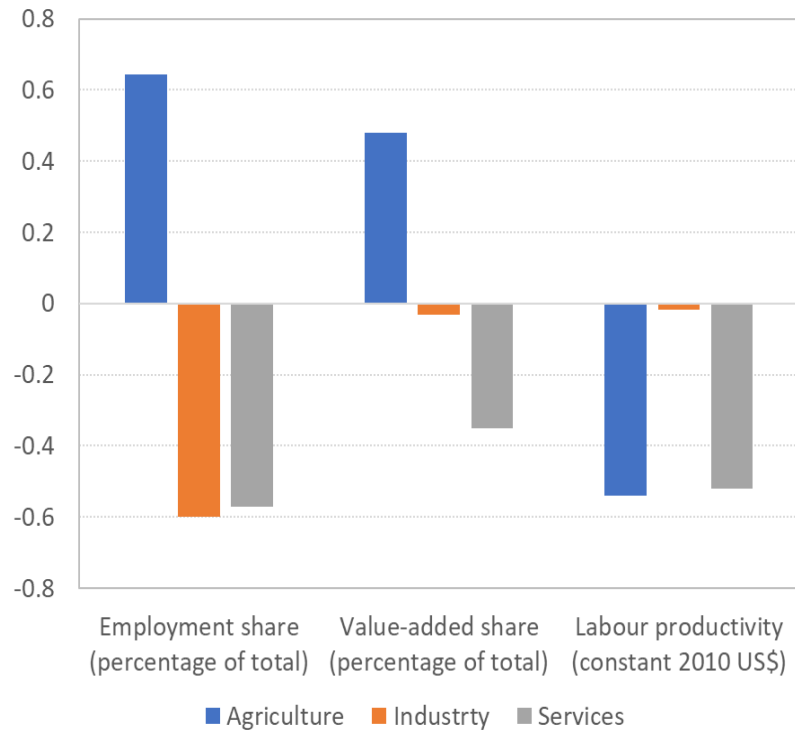
Linkages between structural transformation and poverty reduction: A conceptual framework



Structural Transformation: Correlates of poverty reduction

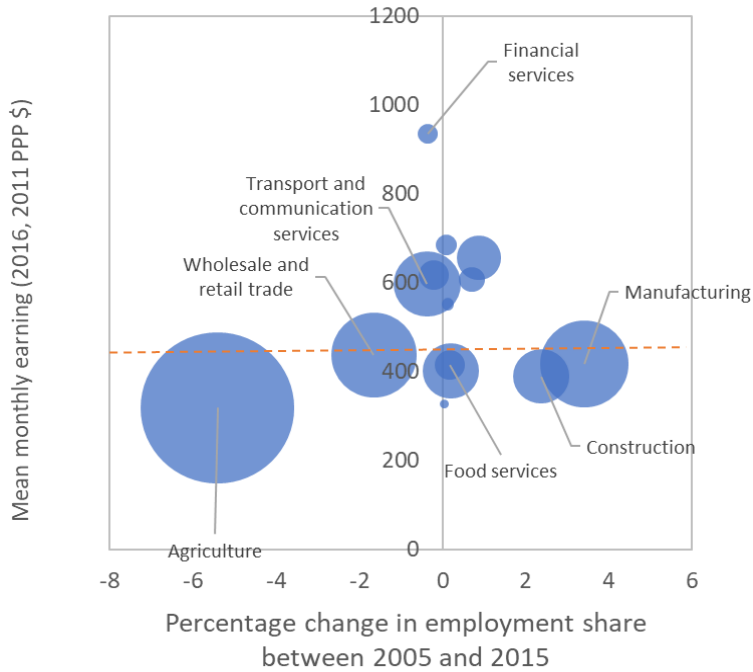
Pairwise correlations between the measures of structural transformation and poverty headcount ratio at the \$3.20 per day international poverty line, average for 2012-2016, Asia-Pacific developing countries

Correlations between labour productivity and poverty headcount ratio at the \$1.90, \$3.20 and \$5.50-per-day international poverty lines, average of 2012-2016, Asia-Pacific developing countries

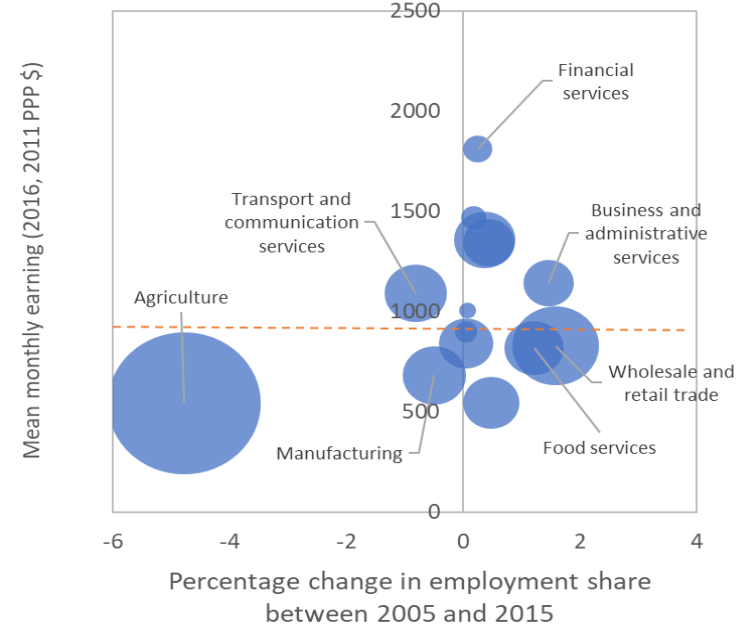


How have earnings and employment shares evolved?

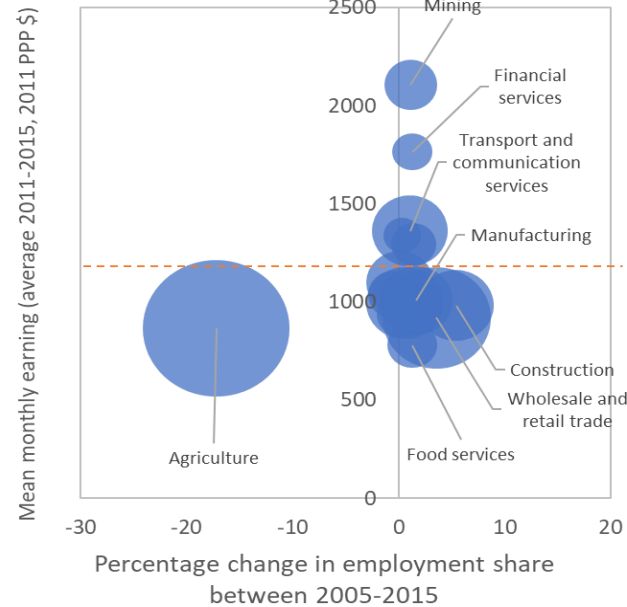
A. Bangladesh



B. Fiji

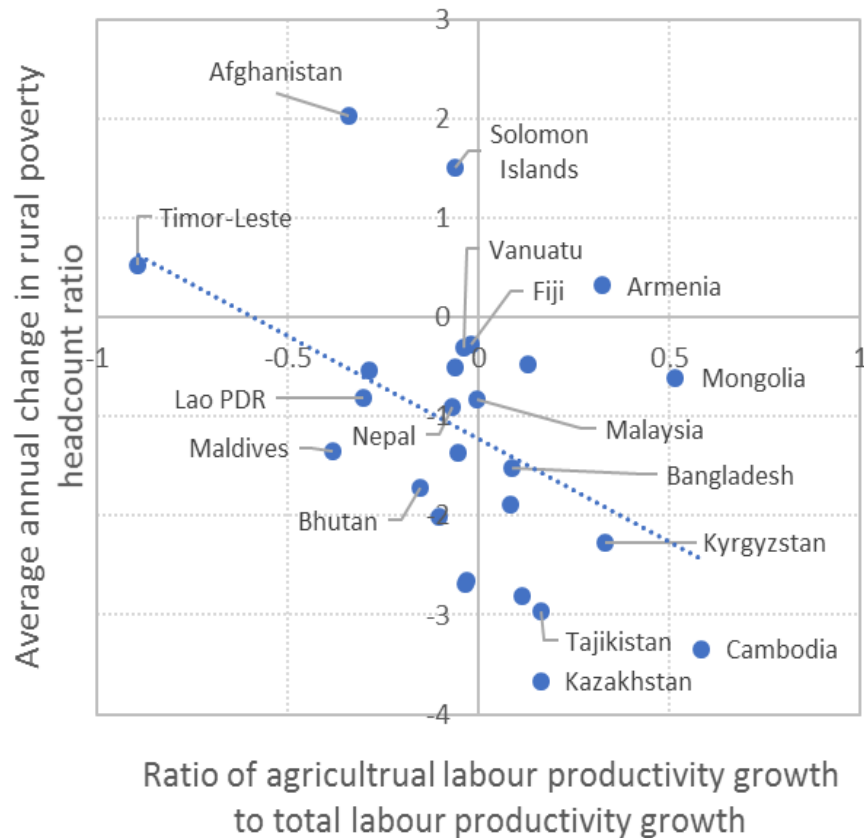


C. Mongolia

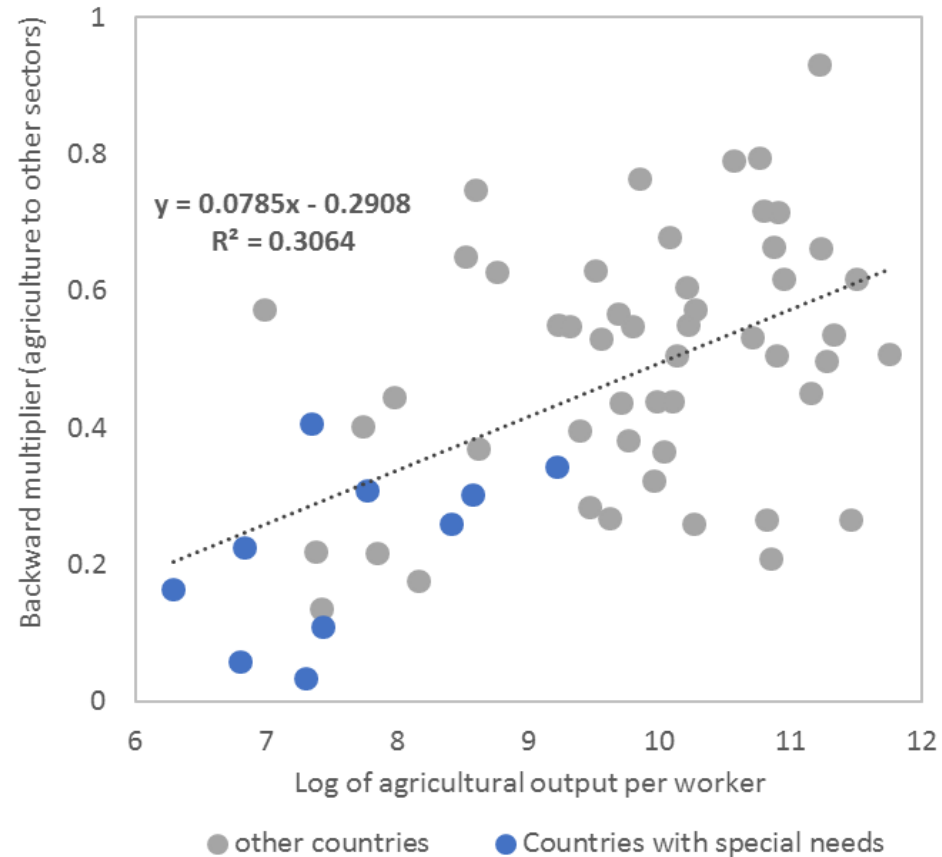


The imperative of rural development

Rural poverty reduction and agricultural productivity growth, Asia-Pacific developing countries, 2000-2015



Agriculture sector's backward multiplier with other sectors and agricultural labour productivity



Policy Considerations (I)

- The East Asian development model may not be applicable contemporarily, but constitutes a part of “the Library of Experiences”, which may be selectively used for policy formulation;
- The State must occupy the central position in structural economic transformation and poverty reduction efforts;
- Industrial Policy, either selective or functional, is the State’s instrument for ST;
- “The Targeting” depicts State’s comprehensive support for a given industrial sector it chooses to develop.

Policy Considerations (II)

Least Developed Countries:

- As many LDCs' economies are dominated by the rural sector, **rural modernization** is of key importance. It may reduce poverty faster than the shift from agriculture to industry;
- Nevertheless, productive employment must be created through industrialization. **Human capital** is necessary, so are **employment opportunities**;
- **Foreign direct investment** will help ST if it serves the needs of the overall development strategy. **Special Economic Zones** is a good solution for FDI attraction, if the State has no capacity to create enabling environment everywhere.

Policy Considerations (III)

Landlocked Developing Countries:

- **Early de-industrialization and the “primitivization” of the industrial base** are the obstacles to structural transformation and poverty reduction in LLDCs. So is the natural **resource dependency**;
- ST must focus on creating/expanding the **manufacturing base** in labour intensive sectors and/or productive services. **FDI** should be strategized (to fit the overall development strategy) and directed away from resources;

Small Island Developing States:

- **Targeting** of specific sectors or even products is necessary due to the small size of SIDS' economies;
- The **“Blue Economy”** and the environmentally sustainable management of oceanic assets within the Exclusive Economic Zones (31 times bigger than the Pacific SIDS' landmass) is the solution;
- Tourism and environmentally sustainable sea-bed extraction may also be considered;
- Larger SIDS should also focus on commercial crops for export markets;

Cooperation and the Role of the International Community

- Asia and the Pacific is the place of various integration and cooperation efforts: e.g. BRI, EAEU;

The International Community must:

- Support cooperation between Landlocked Developing Countries and transit countries to ensure the former access to the global economy;
- Augment productive capacities of Least Developed Countries so that they can join the global economy through GVC and RVC;
- Mitigate the consequences of and altogether stop the climate change to allow the Small Island Developing States to survive.