

Trend and current state of structural economic transformation in North and Central Asia

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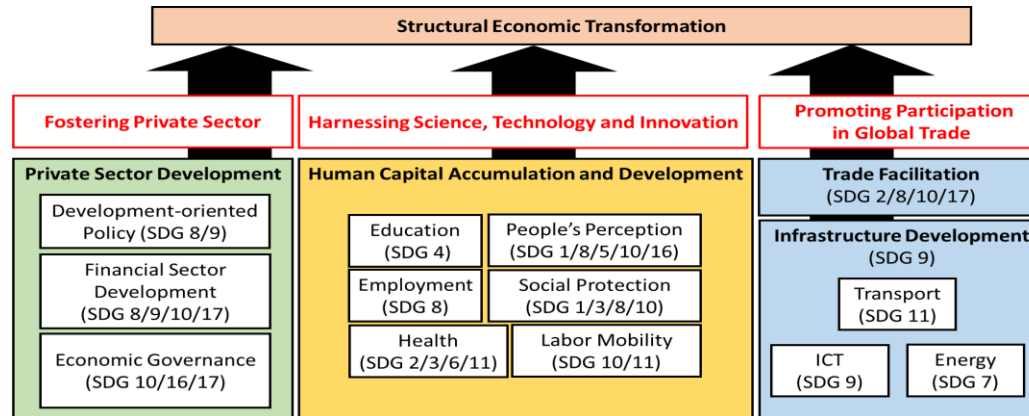


Publication: SDG framework for SET

1. Introduction

Descriptive analysis: where we stand

1. Infrastructure development and trade facilitation
2. Human capital accumulation and development
3. Private sector development (tbd)



Introduction



Structural Economic Transformation

Definition:

Structural economic transformation refers to **a shift in sectoral shares of industrial outputs and exports from primary goods, such as agricultural and natural materials, to manufactured products and services.**

- diversification of products and services
- processing of agricultural and natural materials
- increased value addition and competitiveness in existing products and services

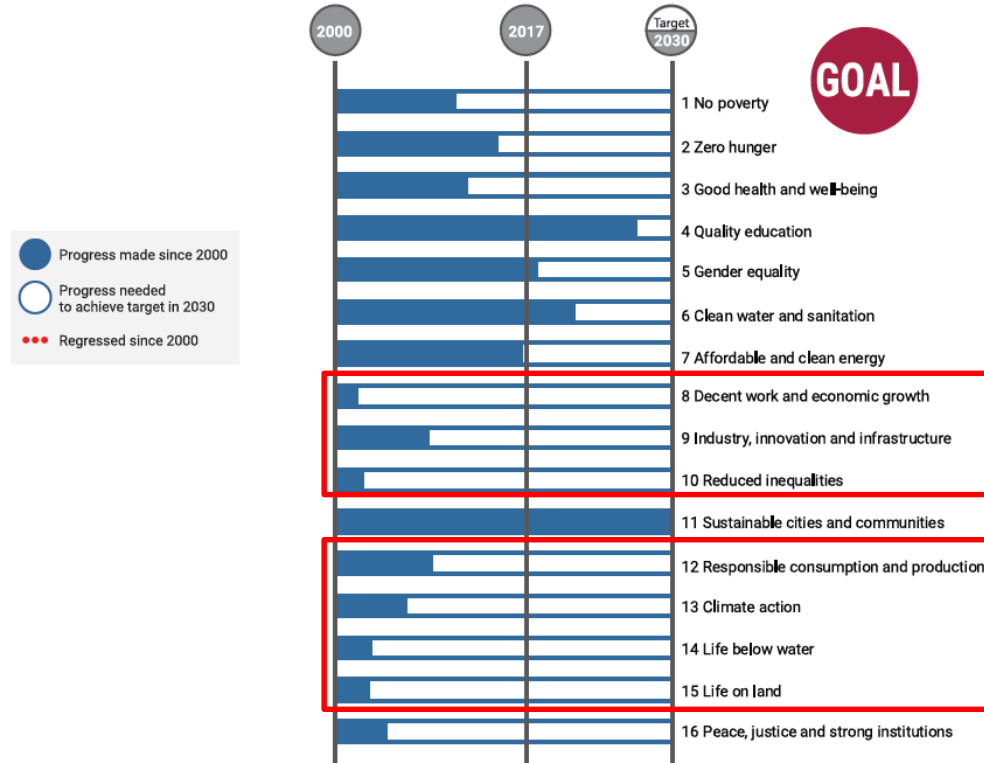
Why transformation is important?

1. Building economic resilience for balanced implementation of the 2030 Agenda
2. Opportunity for regional cooperation and integration for further economic growth
3. Global, regional and subregional commitments of the Vienna Programme of Action (VPOA)



Balanced implementation of the 2030 Agenda

Figure 2.13 - Snapshot of SDG progress in 2017: North and Central Asia



ASIA AND THE PACIFIC SDG PROGRESS REPORT 2017



North and Central Asia is the only subregion in Asia and the Pacific in which government spending on health and education services has been decreasing.

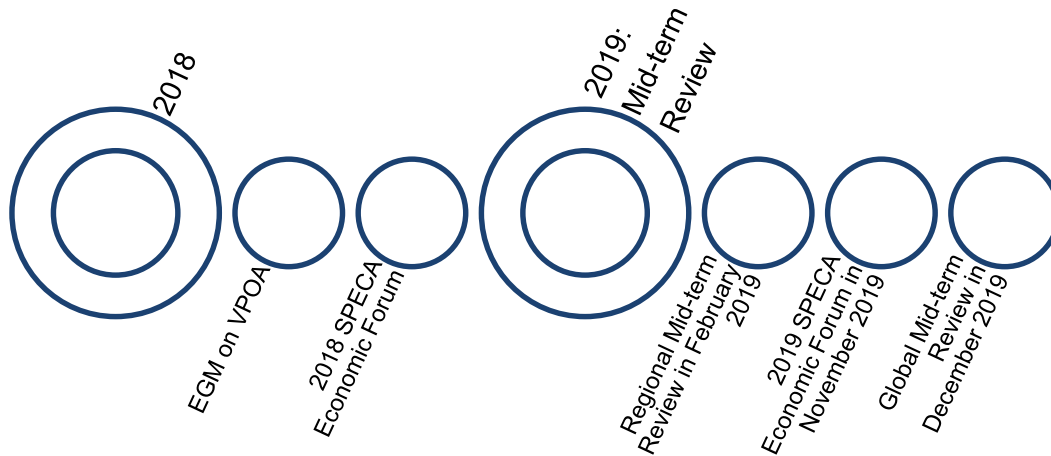
Regional Cooperation and Integration



The economic structure of NCA is not ready to adapt to this changing economic landscape.

Commitments to VPOA

1. Vienna Programme of Action for Landlocked Developing Countries for the Decade 2014-2024
2. United Nations Special Programme of the Economies of Central Asia (SPECA)



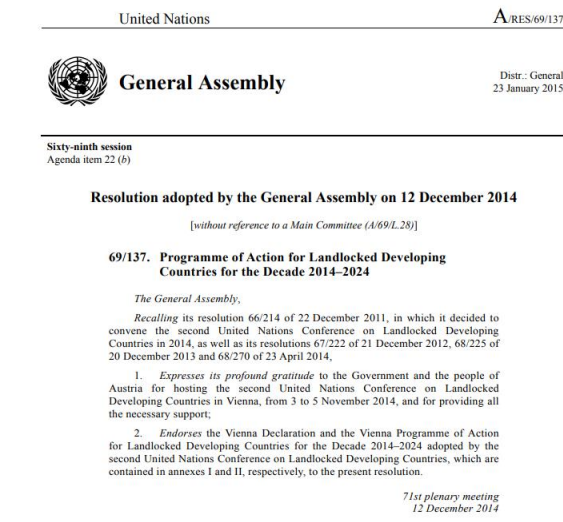
VPOA: structural economic transformation

Landlocked developing countries to:

- 1 Develop a structural transformation strategy
- 2 Encourage innovative solutions, entrepreneurship and the use of modern, cost-effective and locally adapted technologies
- 3 Build a critical mass of viable and competitive productive capacity in manufacturing, agriculture and services
- 4 Promote the attraction of more diversified foreign direct investment
- 5 Undertake measures to modernize the services sector
- 6 Create industrial clusters, such as export-processing zones and regional centres of excellence
- 7 Prioritize private sector development, in particular small and medium-sized enterprises
- 8 Develop an industrial policy
- 9 Strengthen, as appropriate, an effective competition policy
- 10 Utilize the International Think Tank for Landlocked Developing Countries

Development partners support LLDCs to:

- 1 Improve their productive capacities and create economic diversification
- 2 Share innovative technologies, scientific knowledge and technical know-how and best practice
- 3 Increase the value addition of their agricultural and industrial output
- 4 Build institutional and human capacities
- 5 Pursue the effective partnerships necessary for capacity-building, sustainability and quality enhancement, as well as for sectoral development, including the development of tourism;
- 6 Build resilience, developing capacity to respond effectively to external shocks and addressing their specific supply-side constraints



Annex I

SPECA

- Established in 1998.
- 5 Central Asian Countries, Afghanistan and Azerbaijan
- Annual Economic Forum and Governing Council
- 6 Working Groups: transport, trade, knowledge-based development, water-energy-environment, gender, statistics
- **2018 Economic Forum** discussed structural economic transformation.
- Member States called upon ESCAP to provide support to their efforts in accelerating structural economic transformation.
- In response, ESCAP develops this publication.

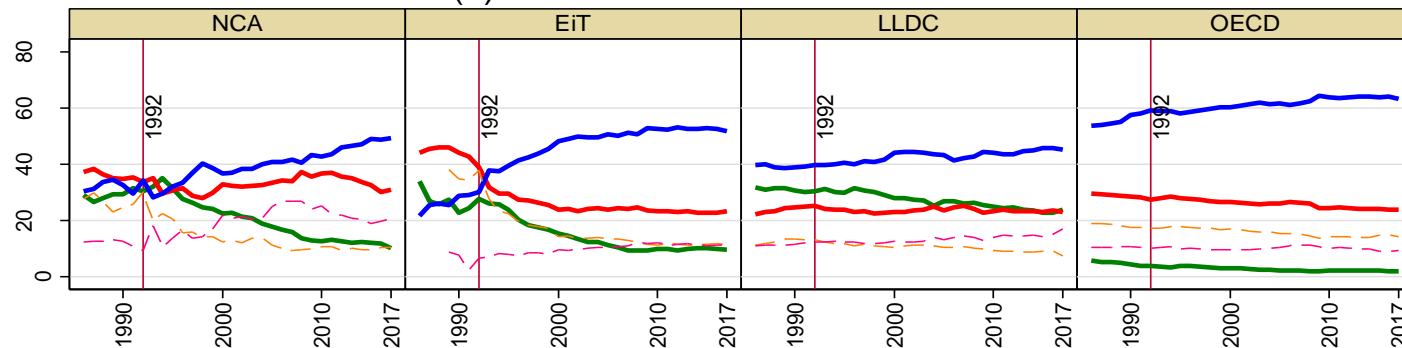


Descriptive Analysis: Where we stand?

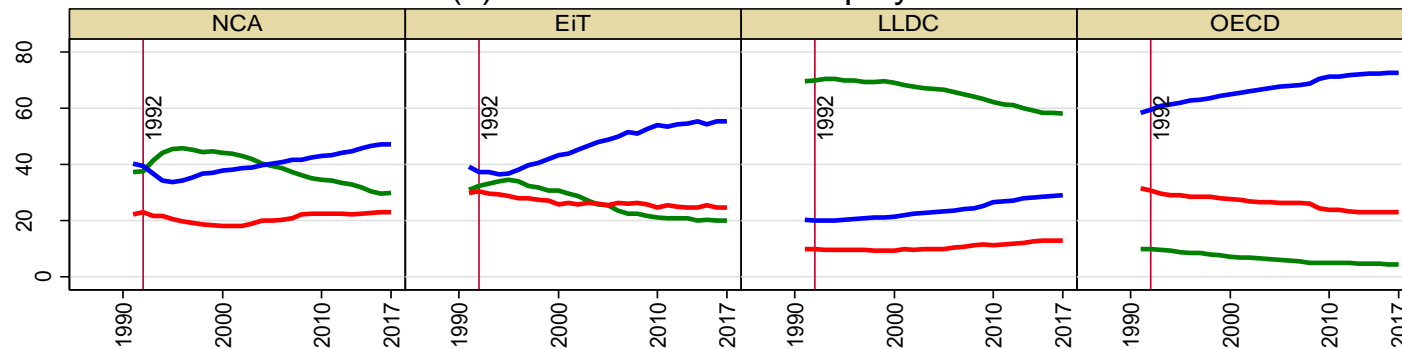


Industrial share

(a) Sectoral share of value added



(b) Sectoral share of employment

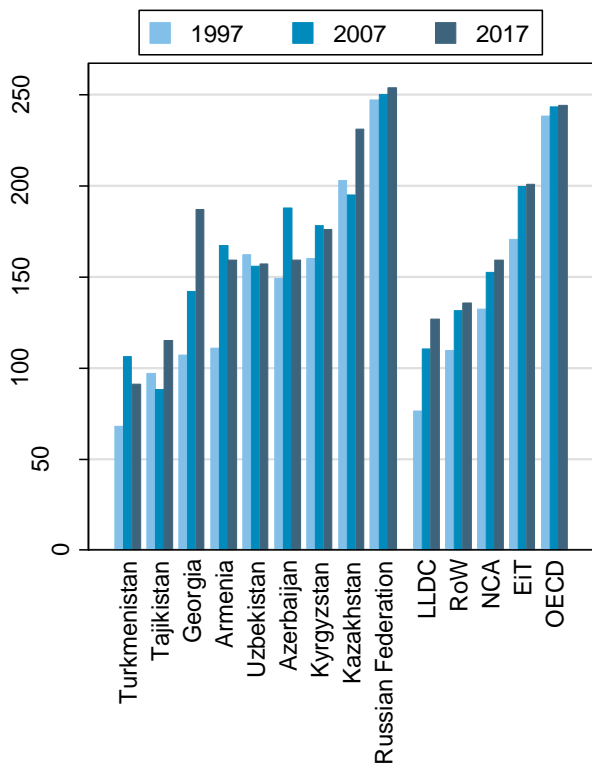


Industrial share: observations

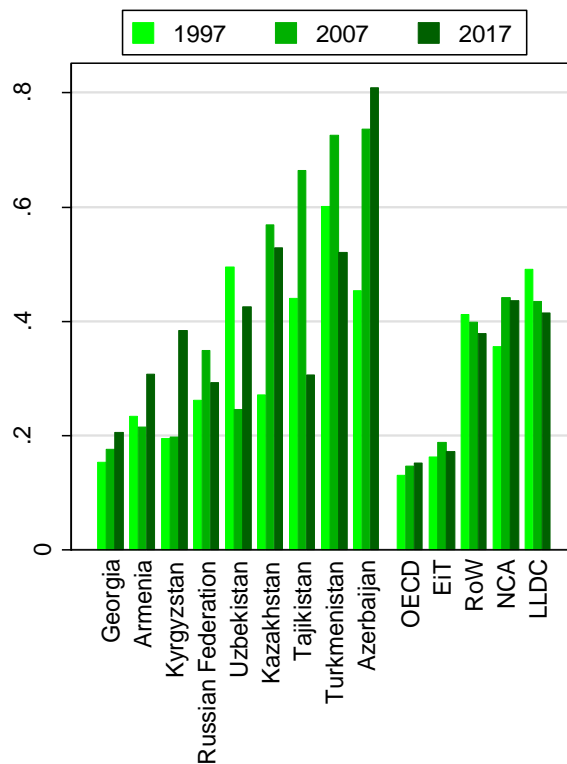
- In the past, **the share of manufacturing sectors was high.**
- After the dissolution, the manufacturing sectors shrunk.
 - Where did the labour in the sector go?
- In North and Central Asia, **the extractive sectors expanded.**
 - Low capacity to refine/process natural materials.
- **The speed of the decline in agricultural output has been faster than other countries,** even though agriculture is still an important employer.

Export Diversification

(a) Number of products exported



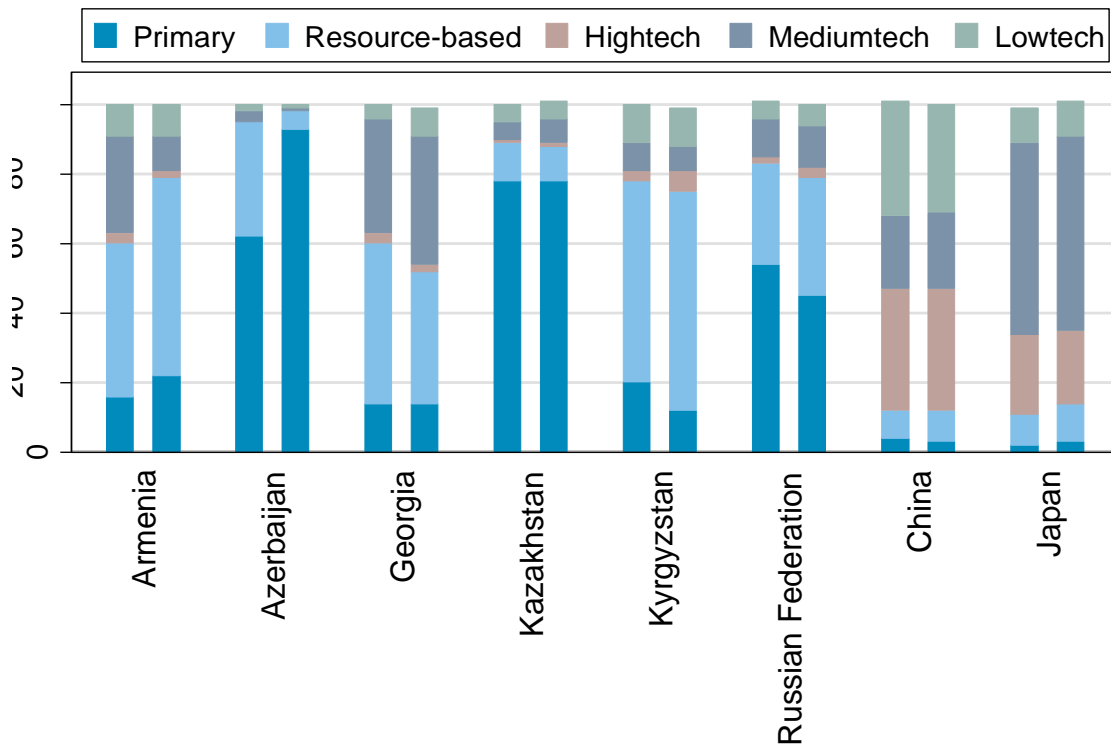
(b) UNCTAD Concentration Index



Export diversification: observations

- **The number of products exported is increasing.**
 - But there is still a space for further diversification
- **Export revenue still depends on fewer goods.**
 - 90% Azerbaijan's export = crude petroleum
 - 80% Turkmenistan's export = natural gas
- **Fewer trade partner = another economic vulnerability**
 - Turkmenistan gas → China
 - Potential for export to South Asia, but Afghanistan

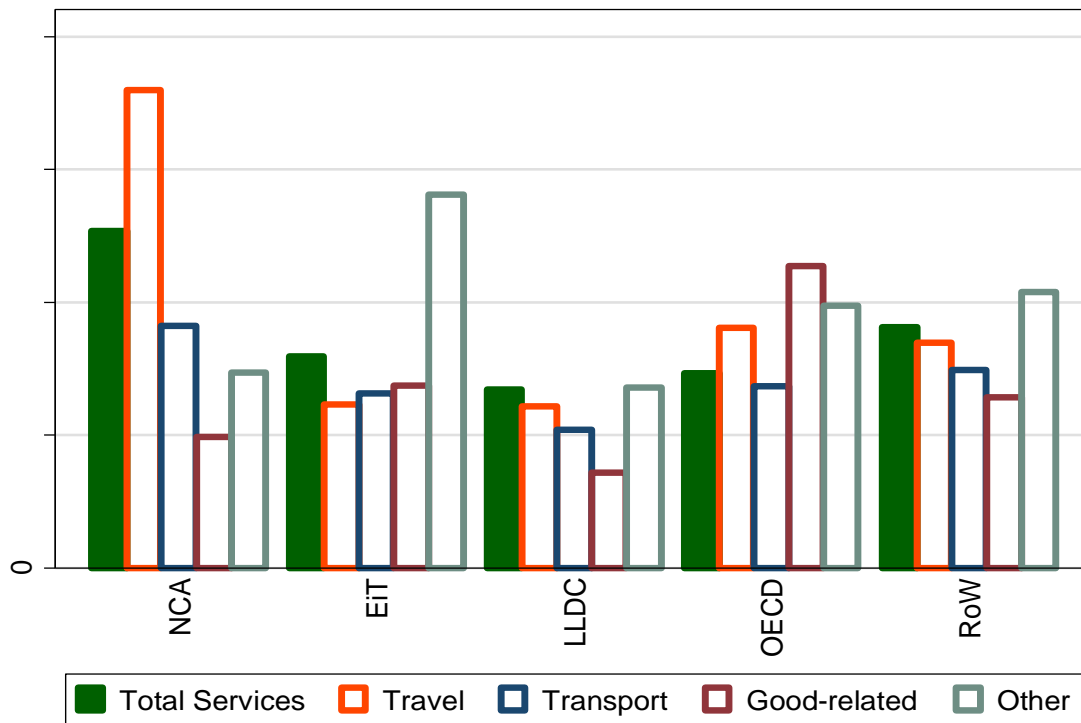
Export Sophistication



Export sophistication: observations

- **The process of export sophistication is slow** (or reversed).
- **Less participation in the global value chain**
 - Why NCA attracts little FDI?
 - Small domestic market? (3% of the world population)
 - Landlockedness → high trade cost?
 - Human capital?
 - Governance?

Service Export



Service export: observations

- Like other countries, service sectors are developing.
 - SMEs
 - Higher share when informal sectors are counted.
 - Bazar
 - Border trade
- Service exports are growing.
 - Travel services: tourism
 - Other services: insurance, financial, professional and legal services are limited.

Discussion

- Premature de-industrialization?
 - The decline in agricultural output is too fast and problematic?
- Why NCA attract little FDI?
- How other service sector can be increased?
- Any other hypothesis on why SET in NCA is slow.
 - Labour mobility across sectors and urban/rural
 - Migratory flow
 - SMEs and informal economy

THANK YOU

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