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Regional Expert Group Meeting on the Midterm Review of the Vienna  
Programme of Action

## Session 5: Structural Transformation

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## Outline of Presentation

- 1.) The concept of structural transformation
- 2.) The performance of LLDCs in structural transformation
- 3.) The performance of Asian LLDCs compared to all LLDCs
- 4.) The concept of Productive Capacities
- 5.) The Productive Capacities Index (PCI)
- 6.) The Performance of LLDCs on Productive Capacities
- 7.) Policy conclusions

## 1.) The concept of Structural

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

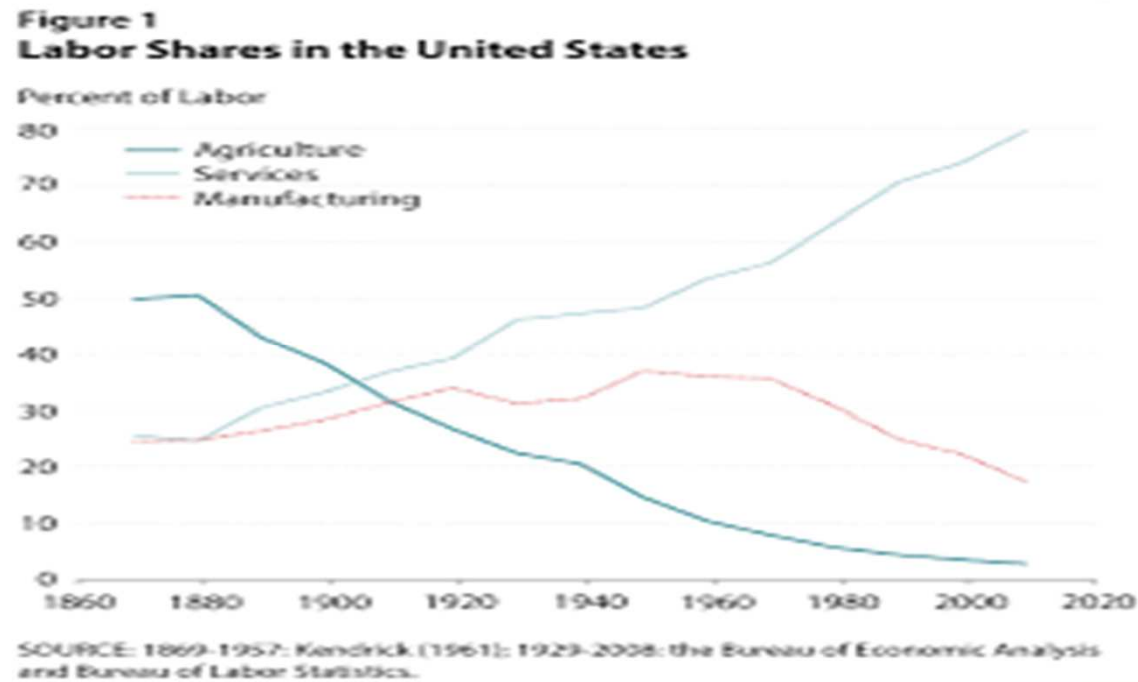
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## 1.) The concept of Structural Transformation

- Structural Economic Transformation = Basis for sustainable, inclusive growth and the SDGs
- Growth without Structural Transformation (e.g. based on natural resource exploitation):
  - Concentrated in one or two sectors
  - Vulnerable to shocks/reversals
  - Unsustainable
- Development Policy has usually recommended fostering Structural Economic Transformation to achieve sustainable developmental progress

## 1.) The concept of Structural Transformation

Structural Economic Transformation affects the shares of the three core sectors in the overall economy over the development process.

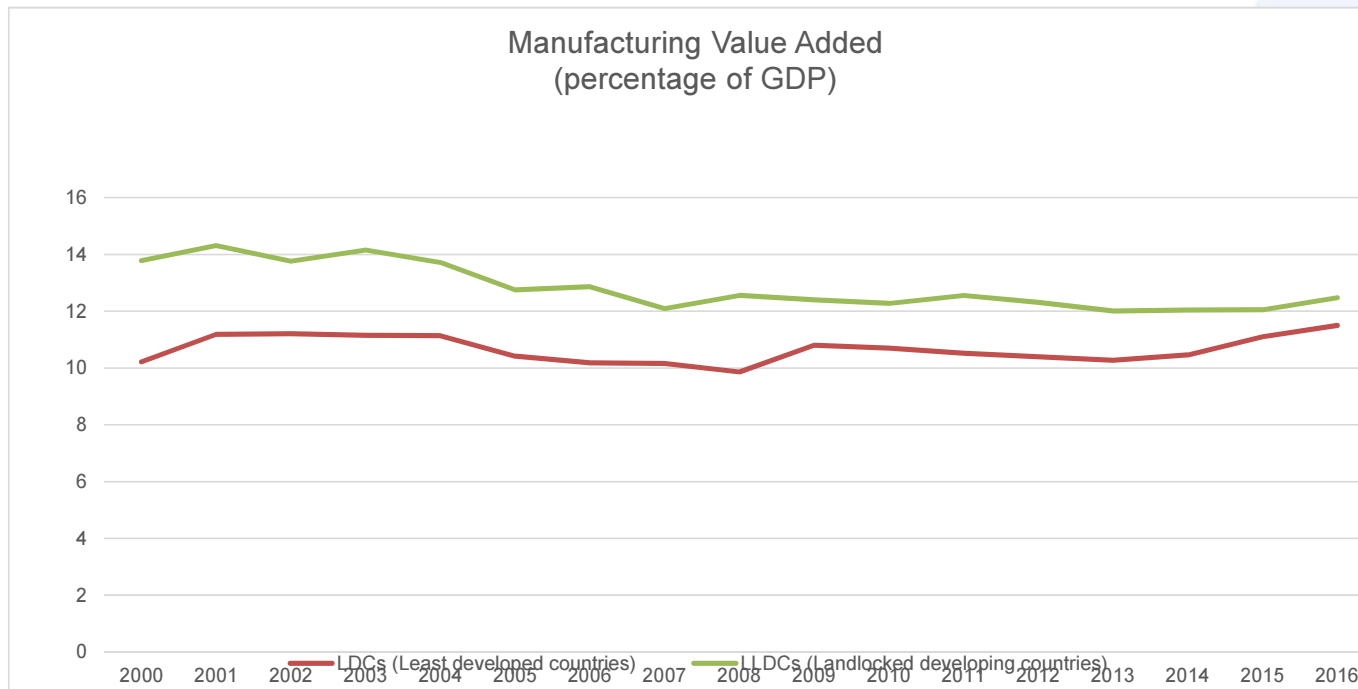


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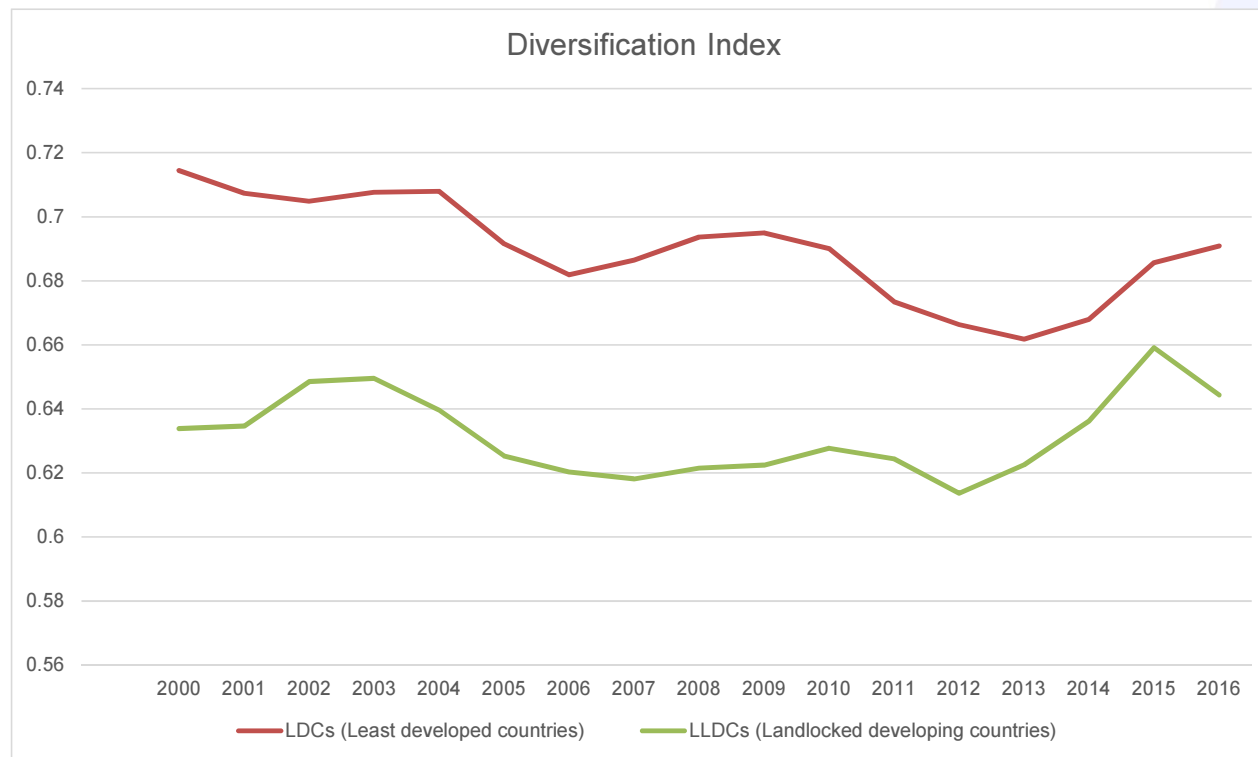
## 2.) The Performance of LLDCs in Structural Transformation

- Structural Transformation (esp. Industrialization), especially difficult to achieve for LLDCs due to their high trade costs:
  - Imports of machinery and raw materials is expensive
  - Exports of manufacturing output uncompetitive
  - Competition from profitable natural resource exploitation

## 2.) The Performance of LLDCs in Structural Transformation

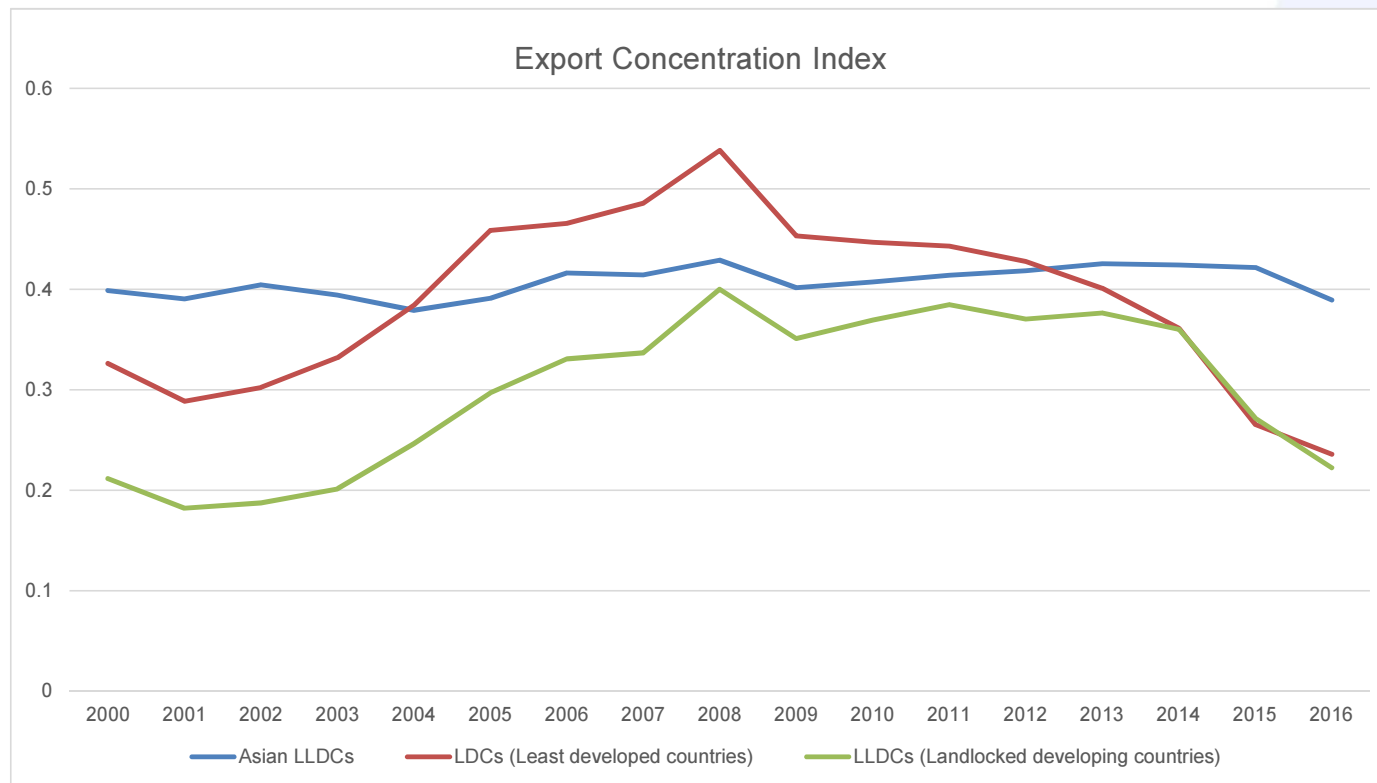


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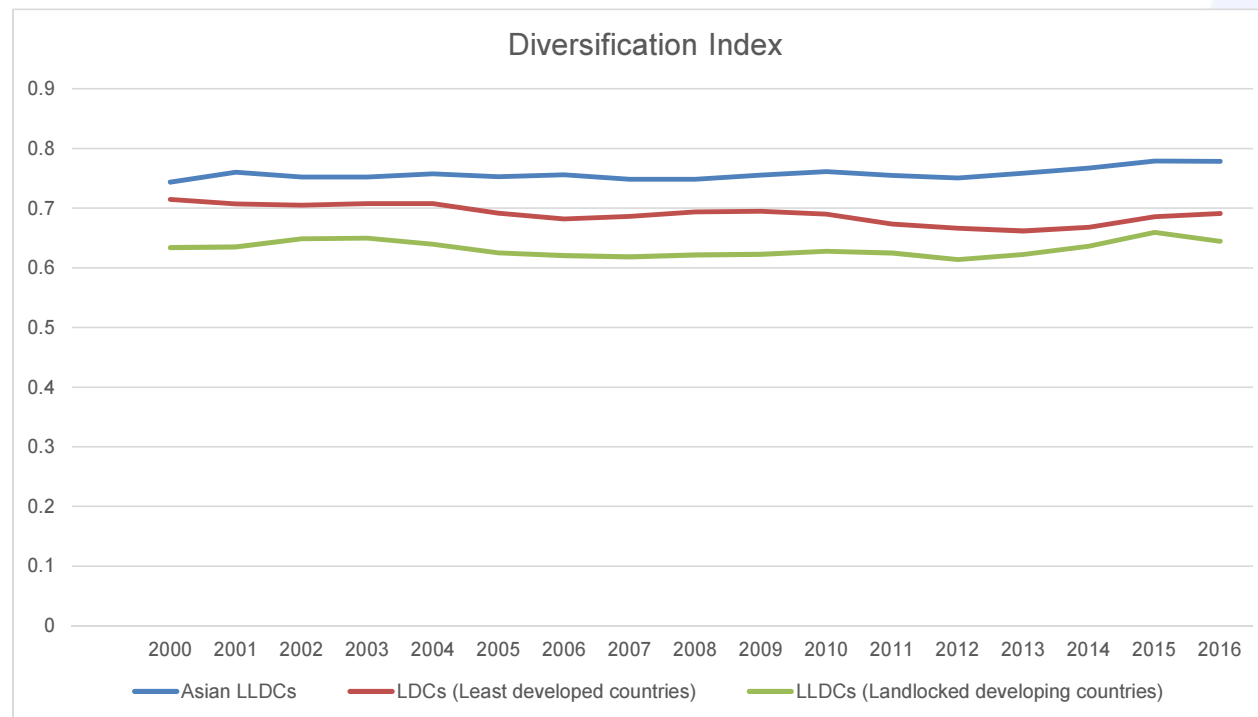




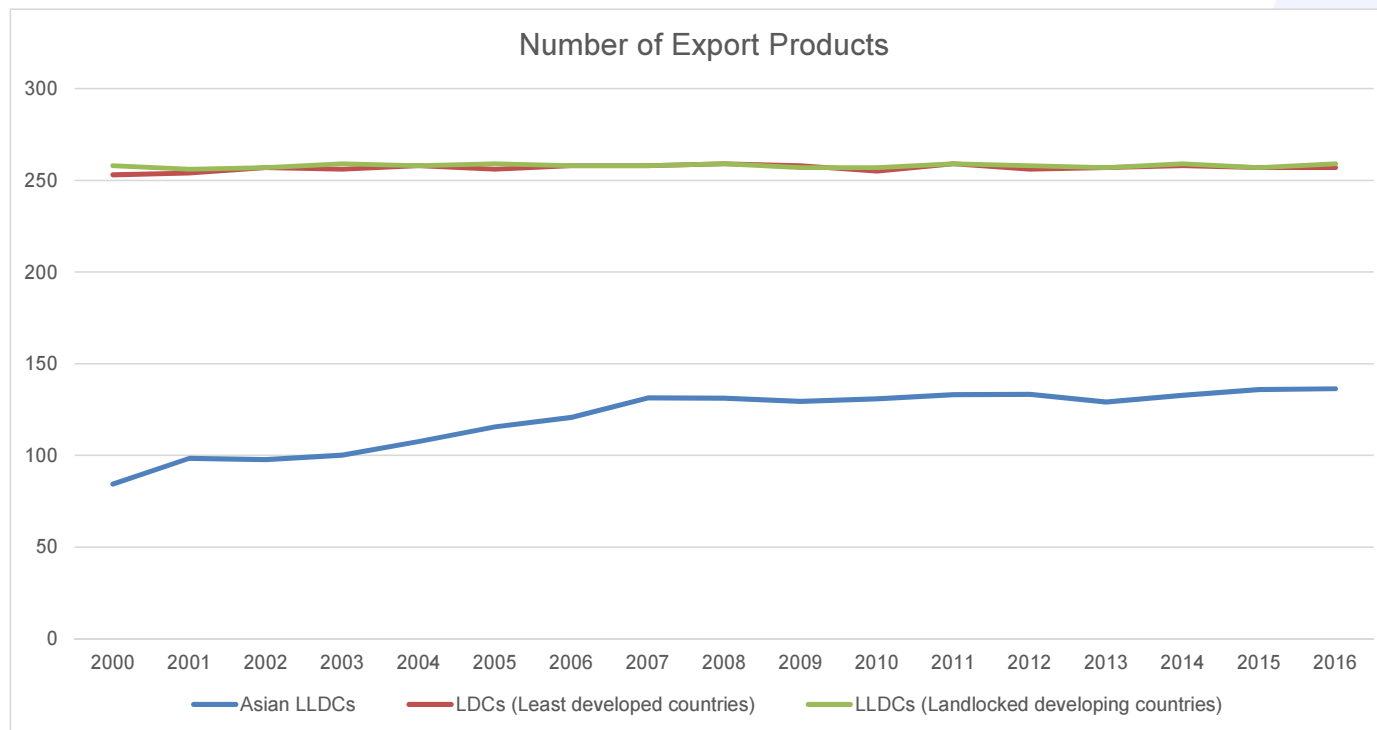
### 3.) The Performance of Asian LLDCs compared to all LLDCs



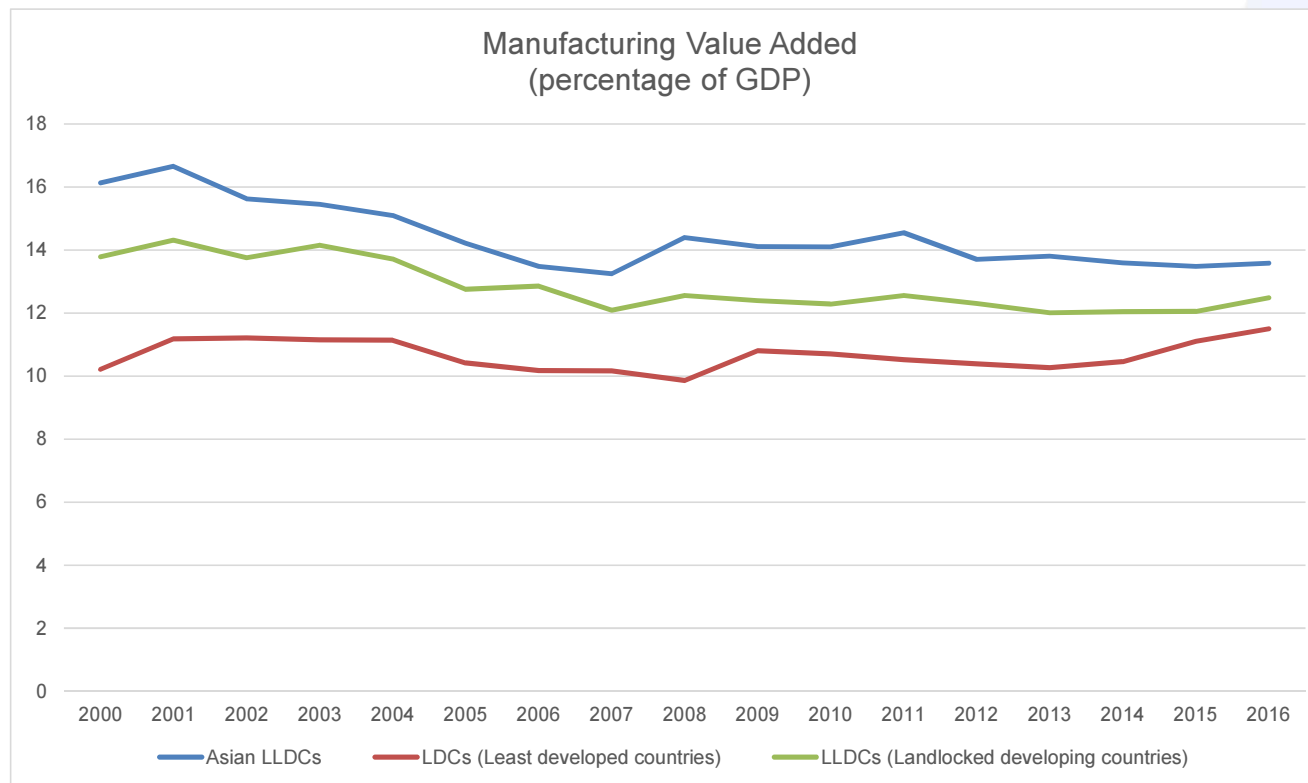
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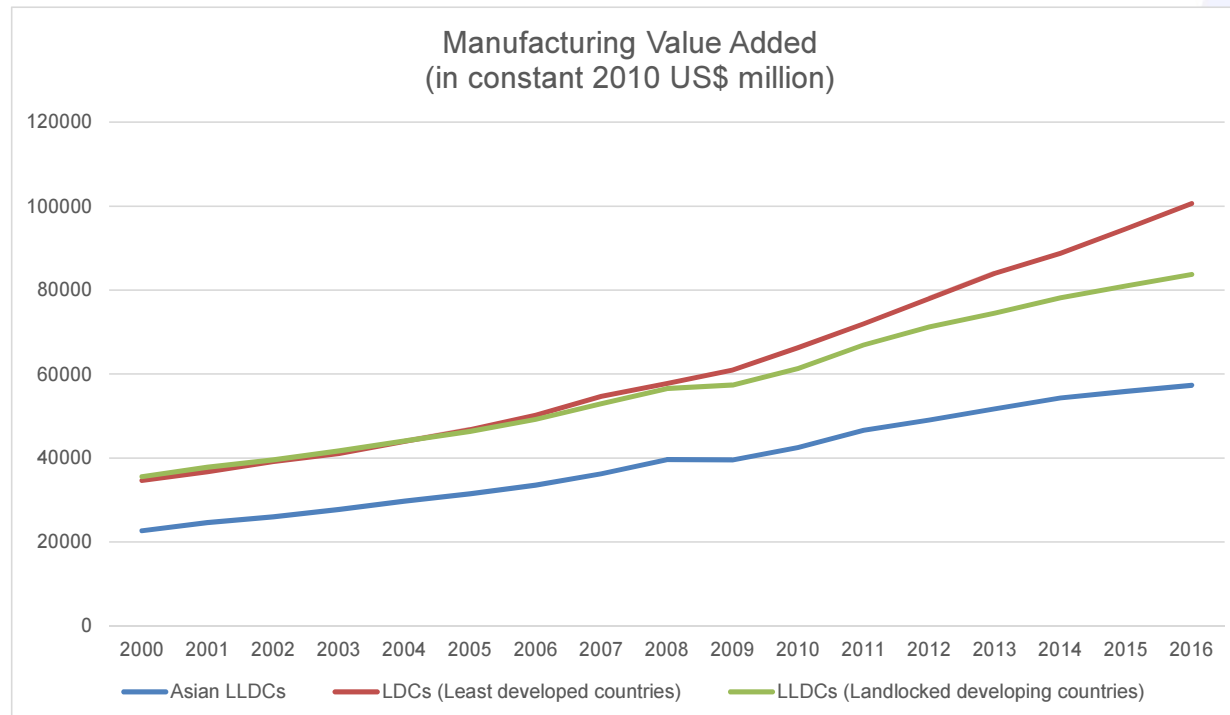
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## 4.) The concept of Productive Capacities

### Productive Capacities:

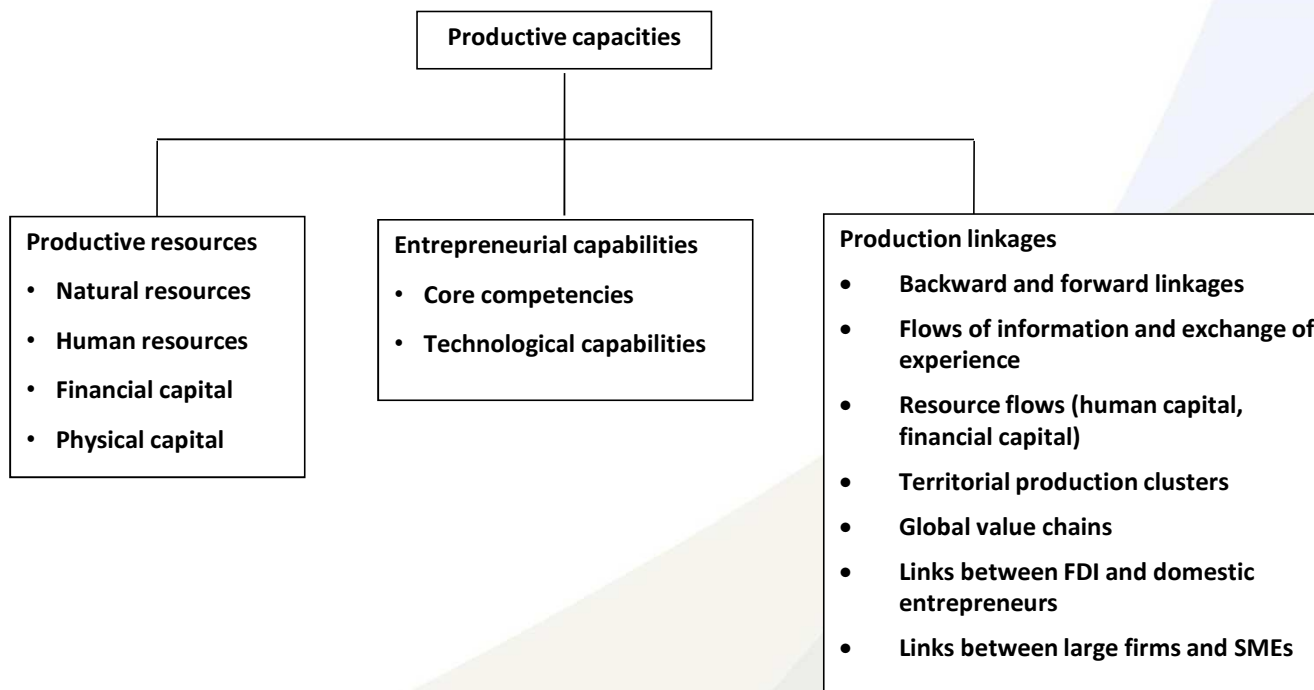
“The productive resources, entrepreneurial capabilities and production linkages which together determine the capacity of a country to produce goods and services and enable it to grow and develop” (UNCTAD, 2006)

### Productive capacities:

- determine what (and how much) a country can produce, which determines its long-term growth and development prospects. (e.g. exporter of raw materials versus exporter of consumer electronics).
- Are a key determinant of structural transformation and export diversification.
- Facilitate the achievement of broader socio-economic goals.

## 4.) The concept of productive capacities

The 3 components of productive capacities:



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## 5.) The Productive Capacities Index (PCI)

### UNCTAD's Productive Capacities Index (PCI):

- Aims to 'operationalize' the concept of productive capacities for policy-makers.
- Is a tool to measure the levels of productive capacities in a given economy, and can be used to assess performance over time, and compare across countries.
- Simplification, but provides practical applicability.

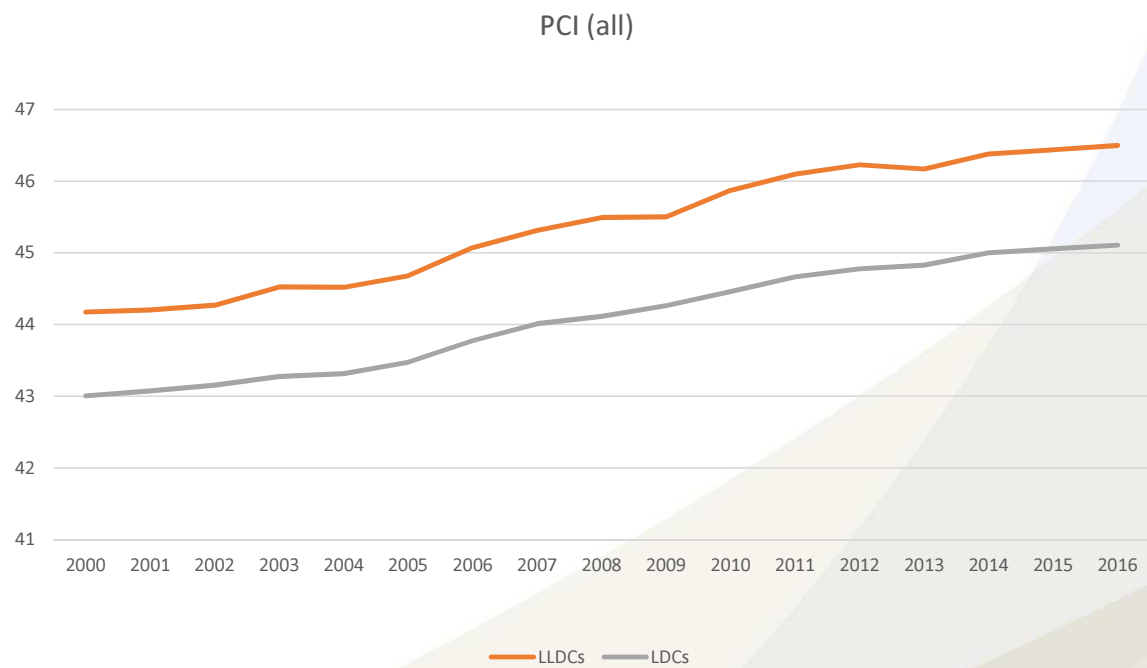
### Composition of the PCI:

- 8 categories: Natural Capital, Energy, Human Capital, Information and Communications Technology (ICT), Institutions, Private Sector, Structural Change, and Transport.
- 58 indicators
- Covering 190 countries from year 2000 until today.
- Scores between 0 and 100, though results are compressed: Highest performing country: 64.7, while lowest performer: 40.5.



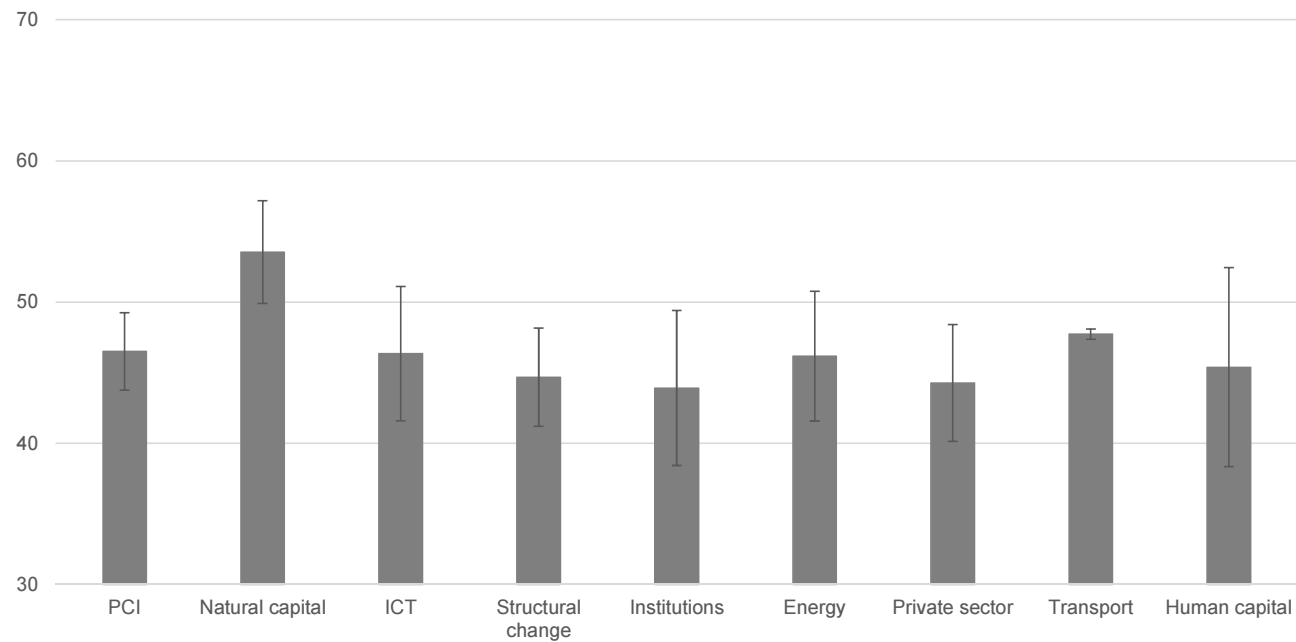
## 6.) The Performance of LLDCs on the PCI

Overall PCI performance of LLDCs:



### 3.) The Performance of LLDCs

PCI performance of LLDCs by component:



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## 4.) Policy Conclusions

- LLDCs, and Asian LLDCs in particular lag behind in terms of structural transformation, which holds the key to sustained inclusive growth and achieving the SDGs
- Policy-efforts should therefore concentrate on promoting structural transformation, including through:
  - targeted incentives for sectors/firms delivering higher value-added production/exports/higher-skilled employment
  - Identifying and addressing the binding constraints on structural transformation in the domestic economy
  - Creating an enabling environment for the private sector
  - Using windfall gains from commodities exports to support infrastructure, education, and science and technology/ICT